Company No.

149520	U

TOKIO MARINE INSURANS (MALAYSIA) BERHAD
(Incorporated in Malaysia)

STATUTORY FINANCIAL STATEMENTS

31 DECEMBER 2011

2067A2/zu

Company No.

149520	U

TOKIO MARINE INSURANS (MALAYSIA) BERHAD
(Incorporated in Malaysia)

CONTENTS

Company No.

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TOKIO MARINE INSURANS (MALAYSIA) BERHAD
(Incorporated in Malaysia)

DIRECTORS' REPORT

The directors are pleased to submit their report to the members together with the audited financial statements of the Company for the year ended 31 December 2011.

PRINCIPAL ACTIVITY

The Company is principally engaged in the underwriting of all classes of general insurance business. There have been no significant changes in the nature of this activity during the year.

FINANCIAL RESULTS

	RM'000
Profit for the year	103,259

DIVIDEND

No dividend has been paid or declared by the Company since the end of the previous year.

The directors do not recommend the payment of any dividend in respect of the current year.

RESERVES AND PROVISIONS

All material transfers to or from reserves and provisions during the year are disclosed in the notes to the financial statements.

INSURANCE LIABILITIES

Before the financial statements of the Company were made out, the directors took reasonable steps to ascertain that there was adequate provision for insurance liabilities in accordance with the valuation methods specified in Part D of the Risk-Based Capital Framework ("RBC Framework") issued by Bank Negara Malaysia ("BNM") for insurers.

ALLOWANCE FOR IMPAIRMENT

Before the financial statements of the Company were made out, the directors took reasonable steps to ascertain that proper action had been taken in relation to the full impairment of bad debts and the making of allowance for impairment and satisfied themselves that all known bad debts had been fully impaired and that adequate allowance had been made for doubtful debts.

At the date of this report, the directors are not aware of any circumstances which would render the amounts impaired for bad debts or the amounts of allowance for impairment in the financial statements of the Company inadequate to any substantial extent.

CURRENT ASSETS

Before the financial statements of the Company were made out, the directors took reasonable steps to ensure that any current assets which were unlikely to realise in the ordinary course of business, their values as shown in the accounting records of the Company have been written down to an amount which they might be expected so to realise.

At the date of this report, the directors are not aware of any circumstances which would render the values attributed to the current assets in the financial statements of the Company misleading.

VALUATION METHODS

At the date of this report, the directors are not aware of any circumstances which have arisen which render adherence to the existing methods of valuation of assets or liabilities of the Company misleading or inappropriate.

CONTINGENT AND OTHER LIABILITIES

At the date of this report, there does not exist:

(a) any charge on the assets of the Company that has arisen since the end of the year which secures the liabilities of any other person, or

(b) any contingent liability in respect of the Company that has arisen since the end of the year.

No contingent or other liability of the Company has become enforceable or is likely to become enforceable within the period of twelve months after the end of the year which, in the opinion of the directors, will or may substantially affect the ability of the Company to meet its obligations when they fall due.

For the purpose of this paragraph, contingent or other liabilities do not include liabilities arising from contracts of insurance underwritten in the ordinary course of business of the Company.

CHANGE OF CIRCUMSTANCES

At the date of this report, the directors are not aware of any circumstances, not otherwise dealt with in this report or the financial statements of the Company which would render any amount stated in the financial statements misleading.

ITEMS OF AN UNUSUAL NATURE

The results of the operations of the Company during the year were not, in the opinion of the directors, substantially affected by any item, transaction or event of a material and unusual nature.

There has not arisen in the interval between the end of the year and the date of this report any item, transaction or event of a material and unusual nature likely, in the opinion of the directors, to affect substantially the results of the operations of the Company for the year in which this report is made.

SHARE CAPITAL

There were no new shares issued by the Company during the year.

CORPORATE GOVERNANCE

The Company has complied with all the prescriptive requirements of, and adopts management practices that are consistent with the principles prescribed under JPI/GPI 25 (Consolidated): Prudential Framework of Corporate Governance for Insurers and JPI/GPI 1(Consolidated): Minimum Standards for Prudential Management of Insurers, issued by Bank Negara Malaysia (“BNM”).

In compliance with JPI/GPI 1 (Consolidated): Minimum Standards for Prudential Management of Insurers, the Board of Directors (“the Board”) established four sub-committees as set out below:

Risk Management Committee

The main responsibilities of the Committee are to recommend a risk management framework, in terms of strategies, policies and risk tolerance, for the Board’s approval as well as to provide an overall assessment on the adequacy of the Company’s risk reporting infrastructure, which includes resources and support system, in promoting a pro-active risk management culture.

The Committee comprises two independent non-executive directors and one non-independent non-executive director. They are Teh Boon Eng, Shingo Toda and Dato’ Ahmad Fuaad bin Mohd Dahalan.

Four Risk Management Committee meetings were held during the year with full attendance by the directors.

CORPORATE GOVERNANCE (CONTINUED)

Risk Management Committee (continued)

The risk management framework of the Company comprises an ongoing process for identifying, evaluating and managing the significant risks faced by the Company through designated management functions and internal controls, which cover all levels of personnel and business processes to ensure the Company's operations are run in an effective and efficient manner as well as safeguarding the assets of the Company and stakeholders' interest. This process is supported by the maintenance of a reliable information system that covers all significant activities. Continuous assessment of the effectiveness and adequacy of internal controls, which include independent examination of controls by the internal audit function, ensures corrective action, where necessary, is taken in a timely manner.

Audit Committee

The main responsibility of the Audit Committee is to assist the Board of Directors in discharging its statutory duties and responsibilities relating to accounting and reporting practices of the Company as well as ensuring the effectiveness of the internal controls instituted by the Management. The Audit Committee functions on a Terms of Reference approved by the Board of Directors, with the following principal duties and responsibilities:

a) to review and approve the external and internal auditors' audit plan, scope and audit report on their evaluation of the system of internal controls of the Company;
b) to review the results of the audit and whether or not appropriate action has been taken on the recommendations given by the external and internal auditors;
c) to evaluate the quality of the audits performed by the external auditors and make recommendations concerning their appointments, termination and remuneration, and to consider the nomination of a person or persons as external auditors;
d) to provide assurance that the financial information presented by management is relevant, reliable and timely;
e) to oversee compliance with relevant laws and regulations and observance of a proper code of conduct and
f) to determine the quality, adequacy and effectiveness of the Company's internal control environment.

The Committee comprises 3 independent non-executive directors. They are Teh Boon Eng, Emeritus Professor Dato' Dr Lian Chin Boon and Dato' Ahmad Fuaad Bin Mohd Dahalan.

6 Audit Committee meetings were held during the year, with full attendance by the directors.

CORPORATE GOVERNANCE (CONTINUED)

Nominating Committee

The main responsibilities of the Committee are to ensure that the Board comprises members with the required technical competency, professionalism, mixture of skills and there is a balance between executive, non-executive and independent directors to ensure the effective discharge of the Board's responsibilities.

The Committee also recommends the appointment, promotion and removal of the directors, Chief Executive Officer, Deputy Chief Executive Officer and Technical Advisors, and provides assessment on their individual performance and contribution to the Company as a whole.

The Committee comprises two independent non-executive directors, two non-independent non-executive directors and a non-independent executive director. They are Teh Boon Eng, Shingo Toda, Hironari Iwakuma, Dato' Ahmad Fuaad bin Mohd Dahalan and Lee King Chi, Arthur.

Four Nominating Committee meetings were held during the year, in which two directors were unable to attend a meeting each due to other commitments.

The Board as at the date of this report, comprises six members, five of whom are non-executive directors. All Board members possess the required qualifications and experience in all material aspects of an insurance business to effectively ensure that the Company operates under the highest standard of professionalism.

Six Board meetings were held during the year, in which two directors were unable to attend a meeting each due to other commitments.

Remuneration Committee

The main responsibilities of the Committee are to establish and recommend to the Board, the remuneration structure and policy, including the terms of employment or contract of service for executive directors, Chief Executive Officer, Deputy Chief Executive Officer and Technical Advisors, and to ensure a strong link is maintained between the level of remuneration and individual performance against agreed targets on total remuneration package.

The Committee comprises two independent non-executive directors and a non-independent non-executive director. They are Teh Boon Eng, Shingo Toda and Dato' Ahmad Fuaad bin Mohd Dahalan.

Four Remuneration Committee meetings were held during the year, in which one director was unable to attend a meeting due to other commitments.

DIRECTORS AND THEIR INTERESTS IN SHARES

The directors who have held office since the date of the last report are as follows:

Teh Boon Eng
Emeritus Professor Dato' Dr Lian Chin Boon
Dato' Ahmad Fuaad bin Mohd Dahalan
Takashi Yoshikawa (resigned on 22 June 2011)
Hironari Iwakuma
Lee King Chi, Arthur
Shingo Toda (appointed on 12 December 2011)

In accordance with the Company's Articles of Association, Dato' Ahmad Fuaad bin Mohd Dahalan and Emeritus Professor Dato' Dr Lian Chin Boon retire at the forthcoming Annual General Meeting, and being eligible, offer themselves for re-election.

According to the register of directors' shareholdings, none of the directors in office at the end of the year held any interest in shares or in debentures of the Company or its related corporations, except as follows:

	Holdings registered in name of director	
	At 31.12.2011	At 1.1.2011 or date of appointment if later
Subsidiary of ultimate Holding Company -Asia General Holding Limited		
(No. of ordinary shares)		
Lee King Chi Arthur (as nominee of Tokio Marine & Nichido Fire Insurance Co. Ltd)	1	1
Shingo Toda (as nominee of Tokio Marine & Nichido Fire Insurance Co. Ltd)	1	-

DIRECTORS' BENEFITS

During and at end of the year, no arrangements subsisted to which the Company is a party with the object or objects of enabling directors of the Company to acquire benefits by means of the acquisition of shares in or debentures of the Company or any other body corporate.

DIRECTORS' REPORT (CONTINUED)

DIRECTORS' BENEFITS (CONTINUED)

Since the end of the previous year, no director of the Company has received or become entitled to receive any benefit (other than directors’ remuneration and benefits-in-kind shown in the notes to the financial statements of this Company, Tokio Marine Asia Pte. Ltd., being the holding company of this Company and Tokio Marine and Nichido Fire Insurance Company Limited, being a subsidiary of the ultimate holding company of this Company) by reason of a contract made by the Company or a related corporation with the director or with a firm of which he is a member, or with a company in which he has a substantial financial interest.

ULTIMATE HOLDING COMPANY

The directors regard Tokio Marine Holdings Inc., a company incorporated in Japan, as the ultimate holding company of the Company.

AUDITORS

The auditors, PricewaterhouseCoopers, have expressed their willingness to continue in office.

Signed on behalf of the Board of Directors in accordance with their resolution dated 23 March 2012.

TEH BOON ENG DIRECTOR	HIRONARI IWAKUMA DIRECTOR

Kuala Lumpur

Company No.

149520	U

TOKIO MARINE INSURANS (MALAYSIA) BERHAD
(Incorporated in Malaysia)

STATEMENT BY DIRECTORS PURSUANT TO SECTION 169(15) OF THE COMPANIES ACT, 1965

We, Teh Boon Eng and Hironari Iwakuma, being two of the directors of Tokio Marine Insurans (Malaysia) Berhad, state that, in the opinion of the directors, the financial statements set out on pages 11 to 77 are drawn up so as to give a true and fair view of the state of affairs of the Company as at 31 December 2011 and of the results and cash flows of the Company for the financial year ended on that date in accordance with the Financial Reporting Standards ("FRS"), being the Malaysian Accounting Standards Board ("MASB") Approved Accounting Standards in Malaysia for Entities Other Than Private Entities and the provisions of the Companies Act, 1965.

Signed on behalf of the Board of Directors in accordance with their resolution dated 23 March 2012

TEH BOON ENG
DIRECTOR

HIRONARI IWAKUMA
DIRECTOR

STATUTORY DECLARATION PURSUANT TO SECTION 169(16) OF THE COMPANIES ACT, 1965

I, Heng Kiah Ngan, being the Chief Executive Officer primarily responsible for the financial management of Tokio Marine Insurans (Malaysia) Berhad, do solemnly and sincerely declare that the financial statements set out on pages 11 to 77 are, in my opinion, correct, and I make this solemn declaration conscientiously believing the same to be true, and by virtue of the provisions of the Statutory Declarations Act, 1960.

HENG KIAH NGAN

Subscribed and solemnly declared by the abovenamed Heng Kiah Ngan at Kuala Lumpur in Malaysia on 23 March 2012.

Before me,

MOHAMED PUDZIL BIN HAJI MOHD WAHI
COMMISSIONER FOR OATHS

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF TOKIO MARINE INSURANS (MALAYSIA) BERHAD

(Incorporated in Malaysia)
(Company No. 149520 U)

REPORT ON THE FINANCIAL STATEMENTS

We have audited the financial statements of Tokio Marine Insurans (Malaysia) Berhad, which comprise the statement of financial position as at 31 December 2011, and the statements of income, other comprehensive income, changes in equity and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory notes, as set out in Notes 1 to 31.

Directors' Responsibility for the Financial Statements

The directors of the Company are responsible for the preparation of financial statements that give a true and fair view of in accordance with the Financial Reporting Standards, being the MASB Approved Accounting Standards in Malaysia for Entities Other Than Private Entities and the provisions of the Companies Act, 1965 and for such internal controls as the directors determine are necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with approved standards on auditing in Malaysia. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on our judgement, including the assessment of risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the Company's preparation of financial statement that give a true and fair view in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

PricewaterhouseCoopers (AF 1146), Chartered Accountants,
Level 10, 1 Sentral, Jalan Travers, Kuala Lumpur Sentral, P.O. Box 10192, 50706 Kuala Lumpur, Malaysia
T: +60 (3) 2173 1188, F: +60 (3) 2173 1288, www.pwc.com/my

REPORT ON THE FINANCIAL STATEMENTS (CONTINUED)

Opinion

In our opinion, the financial statements have been properly drawn up in accordance with the Financial Reporting Standards, being the MASB Approved Accounting Standards in Malaysia for Entities Other Than Private Entities and the provisions of the Companies Act, 1965 so as to give a true and fair view of the financial position of the Company as of 31 December 2011 and of its financial performance and cash flows for the year then ended.

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

In accordance with the requirements of the Companies Act, 1965 in Malaysia, we also report that, in our opinion, the accounting and other records and the registers required by the Act to be kept by the Company have been properly kept in accordance with the provisions of the Act.

OTHER MATTERS

This report is made solely to the members of the Company, as a body, in accordance with Section 174 of the Companies Act, 1965 in Malaysia and for no other purpose. We do not assume responsibility to any other person for the content of this report.

PRICEWATERHOUSECOOPERS
(No. AF: 1146)
Chartered Accountants

SRIDHARAN NAIR
(No. 2656/05/12 (J))
Chartered Accountant

Kuala Lumpur
23 March 2012

Company No.

149520	U

TOKIO MARINE INSURANS (MALAYSIA) BERHAD
(Incorporated in Malaysia)

STATEMENT OF FINANCIAL POSITION AS AT 31 DECEMBER 2011

	Note	31.12.2011 RM'000	31.12.2010 RM'000
ASSETS			
Property, plant and equipment	4	14,840	16,874
Intangible assets	5	26,930	26,930
Investments	6	665,784	688,374
Held-to-maturity		55,784	80,964
Available-for-sale		532,314	524,516
Fair value through profit and loss		77,686	82,894
Reinsurance assets	7	166,000	159,512
Insurance receivables	8	116,707	86,466
Loans and receivables (excluding insurance receivables)	9	611,939	485,370
Cash and bank balances		25,829	31,015
Total Assets		1,628,029	1,494,541
EQUITY, GENERAL FUNDS AND LIABILITIES			
Share capital	10	278,000	278,000
Retained earnings	11	333,913	230,654
Other reserves	12	9,966	8,082
Total Equity		621,879	516,736
Insurance contract liabilities	13	868,758	845,561
Deferred tax liabilities	14	6,290	5,850
Other financial liabilities	15	10,865	1,393
Insurance payables	16	69,536	77,830
Tax payable		11,815	7,219
Other payables	17	38,886	39,952
Total Liabilities		1,006,150	977,805
Total Equity and Liabilities		1,628,029	1,494,541

The accompanying notes are an integral part of these financial statements.

Company No.

149520	U

TOKIO MARINE INSURANS (MALAYSIA) BERHAD
(Incorporated in Malaysia)

INCOME STATEMENT
FOR THE YEAR ENDED 31 DECEMBER 2011

	Note	2011 RM'000	2010 RM'000
OPERATING REVENUE	18	786,648	730,201
Gross earned premiums	19(a)	745,126	693,316
Premiums ceded to reinsurers	19(b)	(149,442)	(131,807)
NET EARNED PREMIUMS		595,684	561,509
Investment income	20	41,522	36,885
Realised gains and losses	21	(2,298)	289
Fair value gains and losses		6,319	14,506
Fee and commission income		36,525	29,444
OTHER REVENUE		82,068	81,124
Gross claims paid		(421,768)	(438,268)
Claims ceded to reinsurers		54,446	63,276
Gross change to insurance contract liabilities		14,176	2,946
Change in insurance contract liabilities ceded to reinsurers		2,096	(415)
NET CLAIMS INCURRED		(351,050)	(372,461)
Other operating income/(expenses)	22	1,469	(4,114)
Fee and commission expense		(88,408)	(78,336)
Management expenses	23	(106,191)	(98,711)
OTHER EXPENSES		(193,130)	(181,161)
PROFIT BEFORE TAXATION		133,572	89,011
Taxation	24	(30,313)	(22,540)
PROFIT FOR THE YEAR		103,259	66,471
BASIC EARNINGS PER SHARE (SEN)	25	37	24

The accompanying notes are an integral part of these financial statements.

Company No.

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TOKIO MARINE INSURANS (MALAYSIA) BERHAD
(Incorporated in Malaysia)

STATEMENT OF COMPREHENSIVE INCOME FOR THE YEAR ENDED 31 DECEMBER 2011

	Note	2011 RM'000	2010 RM'000
Profit for the year		103,259	66,471
Other comprehensive income:			
Revaluation (deficit)/surplus arising during the year		(280)	1,120
Available-for-sale reserves			
Net gain on fair value arising during the year	6	2,732	3,965
Net realised gain/(loss) transferred to Income Statement	6	12	(280)
		2,744	3,685
Tax effects thereon	14	(580)	(106)
		2,164	3,579
Total comprehensive income for the year		105,143	71,170

The accompanying notes are an integral part of these financial statements.

Company No.

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TOKIO MARINE INSURANS (MALAYSIA) BERHAD
(Incorporated in Malaysia)

STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2011

		Non-distributable		Distributable	
	Share capital RM'000	Revaluation reserves RM'000	Available-for-sale reserves RM'000	Retained earnings RM'000	Total RM'000
At 1 January 2010	278,000	717	2,666	164,183	445,566
Total comprehensive income for the year	-	1,120	3,579	66,471	71,170
At 31 December 2010	278,000	1,837	6,245	230,654	516,736
At 1 January 2011	278,000	1,837	6,245	230,654	516,736
Total comprehensive income for the year	-	(280)	2,164	103,259	105,143
At 31 December 2011	278,000	1,557	8,409	333,913	621,879

The accompanying notes are an integral part of these financial statements.

Company No.

149520	U

TOKIO MARINE INSURANS (MALAYSIA) BERHAD
(Incorporated in Malaysia)

STATEMENT OF CASH FLOW
FOR THE YEAR ENDED 31 DECEMBER 2011

	2011 RM'000	2010 RM'000
CASH FLOWS FROM OPERATING ACTIVITIES		
Profit for the year	103,259	66,471
Adjustment of:		
Property, plant and equipment		
- depreciation	5,501	5,541
- (gain)/loss on disposal	(4)	531
- write off	22	48
Fair value gain on financial assets at FVTPL	(6,319)	(14,506)
Accretion of discount	(61)	(174)
Loss on disposal of financial assets at FVTPL	2,290	522
Loss/(gain) on disposal of AFS financial assets	15	(376)
Investment income	(41,460)	(40,611)
Writeback of allowance for doubtful debts	(597)	(347)
Bad debts written off	405	122
Tax expense	30,313	22,540
Profit from operations before changes in operating assets and liabilities	93,364	39,761
Purchase of investments	(50,599)	(62,532)
Proceeds from disposal of investments	39,622	79,632
Proceeds from maturity of investments	39,750	21,399
Increase in fixed and call deposits	(116,399)	(73,252)
Increase in insurance and other receivables	(41,549)	(28,989)
Increase/(decrease) in net insurance contract liabilities	16,559	(3,297)
Increase in insurance and other payables	112	6,029
Decrease in staff loans	215	1,344
	(18,925)	(19,905)
Tax paid	(26,074)	(9,942)
Investment income received:		
- Interest	24,744	16,499
- Dividend	18,429	18,364
- Others	126	120
Net cash (used in)/generated from operating activities	(1,700)	5,136

Company No.

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TOKIO MARINE INSURANS (MALAYSIA) BERHAD
(Incorporated in Malaysia)

STATEMENT OF CASH FLOW
FOR THE YEAR ENDED 31 DECEMBER 2011 (CONTINUED)

	2011 RM'000	2010 RM'000
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of property, plant and equipment	(3,493)	(3,978)
Proceeds from disposal of property, plant and equipment	7	706
Net cash outflow from investing activities	(3,486)	(3,272)
NET (DECREASE)/INCREASE IN CASH AND CASH EQUIVALENTS	(5,186)	1,864
CASH AND CASH EQUIVALENTS AT 1 JANUARY	31,015	29,151
CASH AND CASH EQUIVALENTS AT 31 DECEMBER	25,829	31,015
Cash and bank balances	25,829	31,015

The accompanying notes are an integral part of these financial statements.

1 PRINCIPAL ACTIVITY AND GENERAL INFORMATION

The Company is principally engaged in the underwriting of all classes of general insurance business. There has been no significant change in the nature of this activity during the year.

The Company is a public limited liability company, incorporated and domiciled in Malaysia.

The registered office of the Company is located at:

Level 8, Symphony House, Block D13, Pusat Dagangan Dana 1,
Jalan PJU 1A/46, 47301 Petaling Jaya
Selangor Darul Ehsan

The principal place of business of the Company is located at:

29 - 31st Floor, Menara Dion
27 Jalan Sultan Ismail
50250 Kuala Lumpur

The Directors regard Tokio Marine Holdings Inc. a company incorporated in Japan, as the Company's ultimate holding company.

The financial statements were authorised for issue by the Board of Directors in accordance with a resolution of the Directors on 23 March 2012.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Unless otherwise stated, the following accounting policies have been used consistently in dealing with items which are considered material in relation to the financial statements.

(a) Basis of preparation of the financial statements

The financial statements of the Company have been prepared under the historical cost convention except as disclosed in this summary of significant accounting policies. The financial statements comply with Financial Reporting Standards ("FRS"), being the MASB Approved Accounting Standards in Malaysia for Entities Other than Private Entities, and the provisions of the Companies Act, 1965.

The financial statements of the Company have also been prepared on a historical cost basis, except for financial instruments that have been measured at their fair values and the estimation of insurance liabilities in accordance with the valuation methods specified in Part D of the RBC Framework for insurers issued by Bank Negara Malaysia ("BNM").

The preparation of financial statements in conformity with FRS requires the use of certain critical accounting estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial position, and the reported amounts of revenues and expenses during the reported period. It also requires directors to exercise their judgement in the process of applying the Company's accounting policies. Although these estimates and judgement are based on the directors' best knowledge of current events and actions, actual results may differ from those estimates.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(a) Basis of preparation of the financial statements (continued)

There are no significant areas of estimation uncertainty and critical judgment in applying accounting policies that have a significant effect on the amounts recognised in the financial statements other than those disclosed in the Note 3 to the financial statements.

During the current financial year, the Company has adopted the new accounting standards, amendments and improvements to published standards and interpretations that are effective for the Company's financial year beginning on or after 1 January 2011, as follows:

1) Revised FRS 1: First-time Adoption of Financial Reporting Standards
2) Amendments to FRS 132 Financial Instruments : Presentation – Classification of Right Issues
3) Amendments to FRS 1: First Time Adoption of Financial Statements
4) FRS 3: Business Combinations (Revised)
5) IC Interpretation 16, FRS 2 – Hedges of a Net Investment in a Foreign Operation
6) IC Interpretation 17, Distribution of Non-cash Assets to Owners
7) Amendments to FRS 7, Financial Instruments: Disclosure – Improving Disclosures about Financial Instruments
8) IC Interpretation 4, Determining whether an Arrangement contains a Lease
9) IC Interpretation 12, Service concession arrangements
10) IC Interpretation 18, Transfers of assets from customers
11) Revised FRS 127: Consolidated and separate financial statements
12) Amendment to FRS 2: Share-based payment – Group cash-settled share-based payment transactions
13) Improvements to FRSs (2010)

The adoption of the above applicable standards, amendments or interpretations do not have any significant impact to the Company's financial results and existing accounting policies.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(a) Basis of preparation of the financial statements (continued)

In the next financial year, the Company will be adopting the new IFRS-compliant framework, Malaysian Financial Reporting Standards ("MFRS"). MFRS 1 "First-time adoption of MFRS" provides for certain optional exemptions and certain mandatory exceptions for first-time MFRS adopters.

In the planning stage, the Company has completed its review of the MFRS requirements. No critical conversion issues were identified, hence, there is no significant impact from the adoption of MFRS. Those MFRSs include the following which are applicable and relevant to the Company but not yet effective:

(i) Financial year beginning on/after 1 January 2012

- The revised MFRS 124 "Related party disclosures" (effective from 1 January 2012) removes the exemption to disclose transactions between government-related entities and the government, and all other government-related entities. The following new disclosures are now required for government related entities:
  - The name of the government and the nature of their relationship;
  - The nature and amount of each individually significant transactions; and
  - The extent of any collectively significant transactions, qualitatively or quantitatively.

  The Company will apply this standard from financial periods beginning on 1 January 2012.

- Amendment to MFRS 112 "Income taxes" (effective from 1 January 2012) introduces an exception to the existing principle for the measurement of deferred tax assets or liabilities arising on investment property measured at fair value. MFRS 112 currently requires an entity to measure the deferred tax relating to an asset depending on whether the entity expects to recover the carrying amount of the asset through use or sale. It can be difficult and subjective to assess whether recovery will be through use or through sale when the asset is measured using the fair value model in MFRS 140 "Investment property". As a result of the amendments, IC Interpretation 121 "Income taxes - recovery of revalued non-depreciable assets" will no longer apply to investment properties carried at fair value. The amendments also incorporate into MFRS 112 the remaining guidance previously contained in IC Interpretation 121 which is withdrawn.

  The Company will apply this standard from financial periods beginning on 1 January 2012.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(a) Basis of preparation of the financial statements (continued)

(ii) Financial year beginning on/ after 1 January 2013

- MFRS 9 “Financial instruments - classification and measurement of financial assets and financial liabilities” (effective from 1 January 2015) replaces the multiple classification and measurement models in MFRS 139 with a single model that has only two classification categories: amortised cost and fair value. The basis of classification depends on the entity’s business model for managing the financial assets and the contractual cash flow characteristics of the financial asset.

  The accounting and presentation for financial liabilities and for de-recognising financial instruments has been relocated from MFRS 139, without change, except for financial liabilities that are designated at fair value through profit or loss (“FVTPL”). Entities with financial liabilities designated at FVTPL recognise changes in the fair value due to changes in the liability’s credit risk directly in other comprehensive income (“OCI”). There is no subsequent recycling of the amounts in OCI to profit or loss, but accumulated gains or losses may be transferred within equity.

  The guidance in MFRS 139 on impairment of financial assets and hedge accounting continues to apply.

- MFRS 13 “Fair value measurement” (effective from 1 January 2013) aims to improve consistency and reduce complexity by providing a precise definition of fair value and a single source of fair value measurement and disclosure requirements for use across MFRSs. The requirements do not extend the use of fair value accounting but provide guidance on how it should be applied where its use is already required or permitted by other standards. The enhanced disclosure requirements are similar to those in MFRS 7 “Financial instruments: Disclosures”, but apply to all assets and liabilities measured at fair value, not just financial ones. The Company will apply this standard from financial periods beginning on 1 January 2013.

- Amendment to MFRS 1 “First time adoption on fixed dates and hyperinflation” (effective from 1 July 2011) includes two changes to MFRS 1. The first replaces references to a fixed date of 1 January 2004 with ‘the date of transition to MFRSs’, thus eliminating the need for entities adopting MFRSs for the first time to restate de-recognition transactions that occurred before the date of transition to MFRSs. The second amendment provides guidance on how an entity should resume presenting financial statements in accordance with MFRSs after a period when the entity was unable to comply with MFRSs because its functional currency was subject to severe hyperinflation. The Company will apply this standard from financial periods beginning on 1 January 2013.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(a) Basis of preparation of the financial statements (continued)

(ii) Financial year beginning on/ after 1 January 2013 (continued)

- Amendment to MFRS 7 “Financial instruments: Disclosures on transfers of financial assets” (effective from 1 July 2011) promotes transparency in the reporting of transfer transactions and improve users’ understanding of the risk exposures relating to transfers of financial assets and the effect of those risks on an entity’s financial position, particularly those involving securitisation of financial assets. The Company will apply this standard from financial periods beginning on 1 January 2013.

- Amendment to MFRS 101 “Financial statement presentation” (effective from 1 July 2012) requires entities to separate items presented in OCI in the statement of comprehensive income into two groups, based on whether or not they may be recycled to profit or loss in the future. The amendments do not address which items are presented in OCI. The Company will apply this standard from financial periods beginning on 1 January 2013.

- Amendment to MFRS 119 “Employee benefits” (effective from 1 January 2013) makes significant changes to the recognition and measurement of defined benefit pension expense and termination benefits, and to the disclosures for all employee benefits. Actuarial gains and losses will no longer be deferred using the corridor approach. MFRS 119 shall be withdrawn on application of this amendment. The Company will apply this standard from financial periods beginning on 1 January 2013.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(b) Business combination

The purchase method of accounting is used to account for business combinations. The cost of an acquisition is measured as the fair value of the assets given, equity instruments issued and liabilities incurred or assumed at the date of exchange, plus costs directly attributable to the acquisition. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date. The excess of the cost of acquisition over the fair value of the Company's share of the identifiable net assets acquired at the date of acquisition is reflected as goodwill. See accounting policy Note 2(c) on goodwill. If the cost of acquisition is less than fair value of the acquired net assets, the difference is recognised directly in the income statement.

(c) Goodwill

Goodwill represents the excess of purchase consideration and related costs of acquisition over the aggregate of the fair value of the net assets of the business acquired at the date of acquisition. See accounting policy Note 2(g) on impairment of non-financial assets.

Goodwill is tested annually for impairment and carried at cost less accumulated impairment losses. Impairment losses on goodwill are not reversed.

Goodwill is allocated to cash-generating units for the purpose of impairment testing. The allocation is made to those cash-generating units or groups of cash-generating units that are expected to benefit from the synergies of the business combination in which the goodwill arose, identified according to operating segment .

(d) Property, plant and equipment

Property, plant and equipment are initially stated at cost. Leasehold land and building are subsequently shown at revalued amount, based on periodic valuation of at least once in every 5 years by external independent valuers, less subsequent depreciation and impairment losses. Any accumulated depreciation at the date of revaluation is eliminated against the gross carrying amount of the asset, and the net amount is restated to the revalued amount of the asset.

All other property, plant and equipment are stated at cost less accumulated depreciation and accumulated impairment losses. Cost includes expenditure that is directly attributable to the acquisition of the items.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Company and the cost of the item can be measured reliably. Repairs and maintenance are charged to the income statement during the period in which they are incurred.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(d) Property, plant and equipment (continued)

Property, plant and equipment are depreciated on a straight-line basis to write off the cost of the assets to their residual values over their estimated useful lives, summarised as follows:

Leasehold land and building	50 years
Furniture and fittings	3 - 6 years
Motor vehicles	4 years
Office equipment and computers	3 - 6 years

Residual values and useful lives of assets are reviewed and adjusted, if appropriate, at each balance sheet date.

Surpluses arising from revaluation are credited to revaluation reserve via the statement of other comprehensive income. Any deficit arising from revaluation is charged against the revaluation reserve to the extent of a previous surplus held in the revaluation reserve for the same asset. In all other cases, a decrease in carrying amount is charged to the income statement during the financial period in which they incur.

At each date of the statement of financial position, the Company also assesses whether there is any indication of impairment. If such indications exist, an analysis is performed to assess whether the carrying amount of the asset is fully recoverable. A write down is made if the carrying amount exceeds the recoverable amount. See accounting policy Note 2(g) on impairment of non-financial assets.

Gains and losses on disposals are determined by comparing proceeds with carrying amounts and are credited or charged to the income statement. On disposal of revalued assets, amounts in the revaluation reserve relating to the assets are transferred to retained earnings.

(e) Investments and other financial assets

The Company classifies its investments and other financial assets into the following categories: financial assets at fair value through profit or loss, held-to-maturity or available-for-sale. Classification of the financial assets is determined at initial recognition.

(i) Fair value through profit or loss ("FVTPL")

Financial assets at FVTPL relate to financial assets acquired or incurred principally for the purpose of selling or repurchasing it in the near term or they are part of a portfolio of identified securities that are managed together and for which there is evidence of a recent actual pattern of short term profit taking. Financial assets at FVTPL are measured at fair value and any gain or loss arising from a change in the fair value is recognised in the income statement. Gains and losses on derecognition of such financial assets are measured as the difference between the sales proceeds and the last adjusted fair value in the income statement.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(e) Investment and other financial assets (continued)

(ii) Held-to-maturity ("HTM")

Financial assets at HTM are financial assets with fixed or determinable payments and fixed maturity that the Company has the positive intention and ability to hold to maturity. HTM financial assets are measured at amortised cost using the effective interest method. Any gain or loss is recognised in the income statement when the financial assets are derecognised or impaired.

(iii) Loans and receivables ("LAR")

LAR are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. These financial assets are initially recognised at cost, being the fair value of the consideration paid for the acquisition of the financial assets. All transaction costs directly attributable to the acquisition are also included in the cost of the financial assets. After initial measurement loans and receivables are measured at amortised cost, using the effective yield method, less allowance for impairment. Gains and losses are recognised in profit or loss when the financial assets are derecognised or impaired, as well as through the amortisation process

(iv) Available-for-sale ("AFS")

Financial assets at AFS are those that are not classified as FVTPL or HTM or LAR and are measured at fair value. AFS financial assets are initially recognised at fair value plus transaction costs that are directly attributable to their acquisition. After initial measurement, AFS financial assets are subsequently measured at fair value. Any gain or loss arising from a change in fair value, net of income tax, is reported separately in the statement of comprehensive income and reported as a separate component of equity until the financial asset is derecognised or is determined to be impaired. When the financial assets are derecognised or impaired, the cumulative gains or losses previously recognised in equity shall be transferred through the statement of comprehensive income to the income statement.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(f) Impairment of financial assets

The Company assesses at each statement of financial position date whether there is objective evidence that a financial asset or a group of financial assets is impaired. A financial asset is impaired and impairment losses are incurred if, and only if, there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a 'loss event') and that loss event (or events) has an impact on the estimated future cash flows of the financial asset that can be reliably estimated.

(i) Financial assets carried at amortised cost

If there is objective evidence that an impairment loss on HTM financial assets carried at amortised cost has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the financial asset's original effective interest rate. The carrying amount of the asset is reduced through the use of an allowance account and the amount of the loss is recognised in the income statement.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed by adjusting the allowance account. The amount of the reversal is recognised in the income statement.

(ii) Financial assets carried at cost

If there is objective evidence that an impairment loss on financial assets carried at cost (e.g. equity instruments or which there is no active market or whose fair value cannot be reliably measured) has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the current market rate of return for similar securities. Such impairment losses shall not be reversed.

(iii) Financial assets carried at fair value

In the case of financial assets classified as AFS, a significant or prolonged decline in the fair value of the security below its cost is considered in determining whether the assets are impaired. If any such evidence exists for AFS financial assets, the cumulative loss, measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognised in profit or loss is transferred from equity through the statement of comprehensive income and recognised in the income statement.

If, in a subsequent period, the fair value of a debt instrument classified as AFS financial assets carried at fair value increases and the increase can be objectively related to an event occurring after the impairment loss was recognised in profit or loss, the impairment loss is reversed through the income statement. Impairment losses recognised in the income statement on equity instruments are not reversed through the income statement.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(g) Impairment of non-financial assets

Assets that have an indefinite useful life are not subject to amortisation and are tested annually for impairment. Assets that are subject to amortisation are reviewed for impairment, whenever events or changes in circumstances indicate that the carrying amount may not be fully recoverable.

An impairment loss is recognised for the amount by which the carrying value of the asset exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and the value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash generating units). Non-financial assets other than goodwill that suffered impairment are reviewed for possible reversal of the impairment at each reporting date.

An impairment loss is charged to the income statement immediately unless it reverses the previous valuation in which case it is charged to the revaluation surplus. Impairment losses on goodwill are not reversed. In respect of other assets, any subsequent increase in recoverable amount is recognised in the income statement unless it reverses an impairment loss on a revalued asset in which case it is taken to revaluation surplus.

(h) Derecognition of financial assets

Financial assets are derecognised when the rights to receive cash flows from them have expired or where they have been transferred and the Company has also transferred substantially all risks and rewards of ownership.

(i) Employee benefits

(i) Short term employee benefits

Wages, salaries, paid annual leave and sick leave, bonuses and non-monetary benefits are accrued in the year in which the associated services are rendered by employees of the Company.

(ii) Post-employment benefits

The Company's contributions to the Employees' Provident Fund, the national defined contribution plan, are charged to the income statement in the period to which they relate. Once the contributions have been paid, the Company has no further payment obligations.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(j) Reinsurance

The Company cedes insurance risk in the normal course of business for all of its businesses. Reinsurance assets represent balances due from reinsurance companies. Amounts recoverable from reinsurers are estimated in a manner consistent with the outstanding claims provision or settled claims associated with the reinsurer's policies and are in accordance with the related reinsurance contracts.

Ceded reinsurance arrangements do not relieve the Company from its obligations to policyholders. Premiums and claims are presented on a gross basis for both ceded and assumed reinsurance.

Reinsurance assets are reviewed for impairment at each reporting date or more frequently when an indication of impairment arises during the reporting period. Impairment occurs when there is objective evidence as a result of an event that occurred after initial recognition of the reinsurance asset that the Company may not receive all outstanding amounts due under the terms of the contract and the event has a reliably measurable impact on the amounts that the Company will receive from the reinsurer. The impairment loss is recorded in the income statement.

Gains or losses on buying reinsurance are recognised in profit or loss immediately at the date of purchase and are not amortised.

The Company also assumes reinsurance risk in the normal course of business for general insurance contracts when applicable.

Premiums and claims on assumed reinsurance are recognised as revenue or expenses in the same manner as they would be if the reinsurance were considered direct business, taking into account the product classification of the reinsured business. Reinsurance liabilities represent balances due to reinsurance companies. Amounts payable are estimated in a manner consistent with the related reinsurance contract.

Reinsurance assets or liabilities are derecognised when the contractual rights are extinguished or expire or when the contract is transferred to another party.

Reinsurance contracts that do not transfer significant insurance risk are accounted for directly through the statement of financial position. These are deposit assets or financial liabilities that are recognised based on the consideration paid or received less any explicit identified premiums or fees to be retained by the reinsured. Investment income on these contracts is accounted for using the effective yield method when accrued.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(k) Insurance receivables

Insurance receivables are recognised when due and measured on initial recognition at fair value of the consideration received or receivable. Subsequent to initial recognition, insurance receivables are measured at amortised cost, using the effective yield method.

If there is objective evidence that the insurance receivable is impaired, the Company reduces the carrying amount of the insurance receivable accordingly and recognises that impairment loss in the income statement. The Company gathers the objective evidence that an insurance receivable is impaired using the same process adopted for financial assets carried at amortised cost. The impairment loss is calculated under the same method used for these financial assets. These processes are described in Note 2(f) to the financial statements.

(l) General insurance underwriting results

Product classification

The Company issues contracts that transfer insurance risk.

Insurance contracts are those contracts that transfer significant insurance risk. An insurance contract is a contract under which the Company (the insurer) has accepted significant insurance risk from another party (the policyholders) by agreeing to compensate the policyholders if a specified uncertain future event (the insured event) adversely affects the policyholders. As a general guideline, the Company determines whether it has significant insurance risk, by comparing benefits paid with benefits payable if the insured event did not occur.

Once a contract has been classified as an insurance contract, it remains an insurance contract for the remainder of its life-time, even if the insurance risk reduces significantly during this period, unless all rights and obligations are extinguished or expire.

The general insurance underwriting results are determined for each class of business after taking into account reinsurances, commissions, unearned premiums and claims incurred.

Premium income

Premium income is recognised in a year in respect of risks assumed during that particular year. Premiums from direct business are recognised during the year upon issuance of debit notes. Premiums in respect of risks incepted for which debit notes have not been issued as of the date of the statement of financial position are accrued at that date as pipeline premiums.

Inward treaty reinsurance premiums are recognised on the basis of periodic advices received from ceding insurers.

Outward reinsurance premiums are recognised in the same accounting period as the original policy to which the reinsurance relates.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(l) General insurance underwriting results (continued)

Premium liabilities

Premium liabilities refer to the higher of:

(a) the aggregate of the unearned premium reserves (“UPR”); or

(b) the best estimate value of the Company’s unexpired risk reserves (“URR”) at the valuation date and the provision of risk margin for adverse deviation (“PRAD”) at a 75% confidence level as required by BNM, calculated at the overall Company level. The best estimate value is a prospective estimate of the expected future payments arising from future events insured under policies in force as at the valuation date and includes allowance for the Company’s expenses, including overheads and cost of reinsurance, expected to be incurred during the unexpired period in administering these policies and settling the relevant claims, and allows for expected future premium refunds.

UPR represent the portion of the net premiums of insurance policies written that relate to the unexpired periods of the policies at the end of the year.

In determining the UPR at the date of the statement of financial position, the method that most accurately reflects the actual unearned premium is used, as follows:

(i) 25% method for marine cargo, aviation cargo and transit business;

(ii) time apportionment method for non-annual policies reduced by the percentage of accounted gross direct business commissions to the corresponding premiums, not exceeding limits specified by BNM; and

(ii) 1/24th method for all other classes of general business in respect of Malaysian policies, reduced by the corresponding percentage of accounted gross direct business commission to the corresponding premium, not exceeding limits specified by BNM.

Claims liabilities

A liability for outstanding claims is recognised in respect of both direct insurance and inward reinsurance.

Provision for claims liabilities is made for the estimated costs of all claims together with related expenses less reinsurance recoveries, in respect of claims notified but not settled at the statement of financial position date. Provision is also made for the cost of claims, together with related expenses, incurred but not reported at the date of the statement of financial position, based on an actuarial valuation with a PRAD at a 75% confidence level as required by BNM.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(l) General insurance underwriting results (continued)

Claims liabilities (continued)

Throughout the course of the year, management regularly re-assesses claims and provisions both on an individual and class basis, based on independent professional advice and reports, other available information and management's own assessment of the claims and provisions.

Acquisition costs and deferred acquisition costs ("DAC")

The cost of acquiring and renewing insurance policies net of income derived from ceding reinsurance premiums, is recognised as incurred and properly allocated to the year in which it is probable they give rise to income.

These costs are deferred to the extent that they are recoverable out of future premiums. All other acquisition costs are recognised as an expense when incurred. An impairment review is performed at each reporting date or more frequently when an indication of impairment arises. When the recoverable amount is less than the carrying values, an impairment loss is recognised in the income statement.

DAC are also considered in the liability adequacy test for each accounting period. DAC are derecognised when the related contracts are either settled or disposed of.

For presentation purposes, DAC are netted-off against premium liabilities in the financial statements.

Valuation of general insurance contract liabilities

For general insurance contracts, estimates have to be made for both the expected ultimate costs of claims reported at the end of the reporting period and for the expected ultimate costs of claims incurred but not reported ("IBNR") at the end of the reporting period.

It may take a significant period of time before the ultimate claims costs can be established with some certainty and for some types of policies, IBNR claims represent a significant portion of the insurance contract liabilities. The ultimate cost of the outstanding claims is estimated by using a range of standard actuarial claims projection techniques, such as the Chain Ladder and Bornheutter-Ferguson methods.

The main assumption underlying these techniques is that the Company's past claim development experience can be used to project future claims development pattern, hence ultimate claims costs. As such, these methods extrapolate the development of paid and incurred losses, average costs per claim and the claim numbers based on the observed development of preceding years and expected loss ratios. Historical claims development is mainly analysed by accident years, but can also be further analysed by significant business lines and claims types. Large claims are usually separately addressed, either by being reserved at the face value of loss adjuster estimates or separately projected in order to reflect the future development. In most cases, no explicit assumptions are made regarding future rates of claims inflation or loss ratios. Instead, the assumptions used are those implicit in the historic claims development data on which the projections are based.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(l) General insurance underwriting results (continued)

Valuation of general insurance contract liabilities (continued)

Additionally, certain qualitative judgment is used to assess the extent to which past trends may not apply in future in order to arrive at the estimated ultimate cost of claims that present the likely outcome from the range of possible outcomes, taking into account all uncertainties involved.

(m) Other revenue recognition

Interest income including the amount of amortisation of premium and accretion of discount is recognised on a time proportion basis taking into account the principal outstanding and the effective rate over the period to maturity, when it is determined that such income will accrue to the Company.

Rental income is recognised on a time proportion basis except where default in payment of rent has already occurred and the rent due remains outstanding for over six months, in which case recognition of rental income is suspended. Subsequent to suspension, income is recognised on the receipt basis until all arrears have been paid.

Dividend income is recognised when the right to receive payment is established.

Gains or losses arising on disposal of investments are credited or charged to the income statement.

(n) Foreign currency transactions

Items included in the financial statements of the Company are measured using the currency of the primary economic environment in which the entity operates ("the functional currency").

The financial statements are presented in Ringgit Malaysia, which is the Company's functional and presentation currency.

Foreign currency transactions in the Company are accounted for at exchange rates prevailing at the transaction dates. Foreign currency monetary assets and liabilities at the balance sheet date are translated at the rates of exchange ruling at that date. Exchange differences arising from the settlement of foreign currency transactions and from the translation of foreign currency monetary assets and liabilities are included in the income statement.

(o) Income taxes

Current tax expense is determined according to the tax laws of the jurisdiction in which the Company operates and includes all taxes based upon the taxable profits.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(o) Income taxes (continued)

Deferred tax is recognised in full, using the liability method, on temporary differences arising between the amounts attributed to assets and liabilities for tax purposes and their carrying amount in the financial statements.

Deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which the deductible temporary differences or unused tax losses can be utilised.

Tax rates enacted or substantially enacted by the date of the statement of financial position are used to determine deferred tax and are expected to apply when the related deferred tax asset is realised or the deferred tax liability is settled.

(p) Contingent liabilities and contingent assets

The Company does not recognise a contingent liability but discloses its existence in the financial statements. A contingent liability is a possible obligation that arises from past events whose existence will be confirmed by the occurrence or non-occurrence of one or more uncertain future events beyond the control of the Company or a present obligation that is not recognised because it is not probable that an outflow of resources will be required to settle the obligation. A contingent liability also arises in the extremely rare case where there is a liability that cannot be recognised because it cannot be measured reliably.

A contingent asset is a possible asset that arises from past events whose existence will be confirmed by the occurrence or non-occurrence of one or more uncertain future events beyond the control of the Company. The Company does not recognise contingent assets but discloses their existence where inflows of economic benefits are probable, but not virtually certain.

(q) Dividends

Dividends are recognised as liabilities when the obligation to pay is established.

(r) Operating lease

Leases of assets under which all the risks and benefits of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases are charged to the income statement on a straight line basis over the period of the leases.

(s) Provisions

Provisions are recognised when the Company has a present legal or constructive obligation as a result of past events, when it is probable that an outflow of resources will be required to settle the obligation, and when a reliable estimate of the amount can be made.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(t) Cash and cash equivalents

Cash and cash equivalents consist of cash and bank balances, excluding fixed and call deposits.

(u) Financial instruments

Description

A financial instrument is any contract that gives rise to both a financial asset of one enterprise and a financial liability or equity instrument of another enterprise.

A financial asset is any asset that is cash, a contractual right to receive cash or another financial asset from another enterprise, a contractual right to exchange financial instruments with another enterprise under conditions that are potentially favourable, or an equity instrument of another enterprise.

A financial liability is any liability that is a contractual obligation to deliver cash or another financial asset to another enterprise, or to exchange financial instruments with another enterprise under conditions that are potentially unfavourable.

Recognition method

The particular recognition method adopted for financial instruments recognised in the statement of financial position is disclosed in the individual accounting policy note associated with each item.

Fair value estimation

The Company's basis of estimation of fair values for financial instruments is as follows:

- the fair values of Malaysian Government Securities are based on the indicative market prices;
- the fair values of Cagamas papers and unquoted corporate debt securities are based on the indicative market yield obtained from fund managers;
- the fair values of quoted equity securities and unit trusts are based on quoted market prices; and
- the carrying amounts for other financial assets and liabilities with a maturity period of less than one year are assumed to approximate their fair values.

3 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

Estimates and judgements are continually evaluated by the directors and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

(a) Critical accounting estimates and assumptions

The Company makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, rarely equal the related actual results. To enhance the information content of the estimates, certain key variables that are expected to have a material impact to the Company's results and financial position are tested for sensitivity to changes in the underlying parameters. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next year are outlined below.

(i) Estimated impairment of goodwill

Goodwill is allocated to cash-generating units ("CGU") for the purpose of impairment testing, which is undertaken at the lowest level at which goodwill is monitored for internal management purposes. Impairment testing is performed annually by the Company according to its accounting policies by comparing the recoverable amounts of the CGUs with the carrying amount of net assets allocated to the CGU, including the attributable goodwill.

The recoverable amounts of the CGUs were determined based on the value-in-use calculations. The calculations require the use of estimates. Refer to Note 5 to the financial statements on key assumptions used in the calculations for the CGUs.

(ii) Claims liabilities

The value of claims liabilities for each class of business is estimated by reference to a variety of estimation techniques, generally based on a statistical analysis of historical experience which assumes an underlying pattern of claims development and payment, and includes a provision of risk margin for adverse deviation ("PRAD") at a 75% confidence level as required by BNM. PRAD is a component of the value of the insurance liabilities that relates to the uncertainty inherent in the best estimate value of the claims liabilities. PRAD is also an additional component of the liability value aimed at ensuring that the value of the claims liabilities is established at a level such that there is a higher level of confidence (or probability) that the provisions will ultimately be sufficient. The final selected estimates are based on a judgmental consideration of results of each method and qualitative information, for example, the class of business, the maturity of the portfolio and expected term of settlement of the class. Projections are based on historical experience and external benchmarks where relevant.

3 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS (CONTINUED)

(a) Critical accounting estimates and assumptions (continued)

(ii) Claims liabilities (continued)

Due to the fact that the ultimate claims liability is dependent upon the outcome of future events such as the size of court awards, the attitudes of claimants towards settlement of their claims, and social and economic inflation, there is an inherent uncertainty in any estimate of ultimate claims liability. As such, there is a limitation to the accuracy of those estimates. In fact, it is certain the actual future losses and loss adjustment expenses will not develop exactly as projected and may vary significantly from the projections.

(b) Critical judgements in applying the Company's accounting policies

In determining and applying accounting policies, judgement is often required in respect of items where choice of specific policy could materially affect the reported results and financial position of the Company. However, the directors are of the opinion that there are currently no accounting policies which require significant judgement to be exercised.

4 PROPERTY, PLANT AND EQUIPMENT

	Leasehold land RM'000	Building RM'000	Furniture and fittings RM'000	Motor vehicles RM'000	Office equipment and computers RM'000	Total RM'000
Cost						
At 1 January 2011	3,400	1,870	14,525	1,990	25,453	47,238
Additions	-	-	124	144	3,225	3,493
Disposals	-	-	(1)	(6)	(175)	(182)
Write off	-	-	(113)	-	(323)	(436)
At 31 December 2011	3,400	1,870	14,535	2,128	28,180	50,113
Accumulated depreciation						
At 1 January 2011	243	120	10,620	836	18,545	30,364
Charge for year	80	45	1,781	191	3,404	5,501
Disposals	-	-	(1)	(6)	(173)	(180)
Write off	-	-	(107)	-	(305)	(412)
At 31 December 2011	323	165	12,293	1,021	21,471	35,273
Net book value						
At 31 December 2011	3,077	1,705	2,242	1,107	6,709	14,840

4 PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

	Leasehold land	Building	Furniture and fittings	Motor vehicles	Office equipment and computers	Total
	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
Cost						
At 1 January 2010	2,793	1,357	13,687	2,194	25,501	45,532
Arising from acquisition of business	-	-	1,772	727	1,478	3,977
Additions	607	513	-	-	-	1,120
Disposals	-	-	-	(927)	(1,408)	(2,335)
Write off	-	-	(934)	(4)	(118)	(1,056)
At 31 December 2010	3,400	1,870	14,525	1,990	25,453	47,238
Accumulated depreciation						
At 1 January 2010	177	87	9,266	1,601	16,864	27,995
Charge for year	66	33	2,254	36	3,152	5,541
Disposals	-	-	-	(801)	(1,363)	(2,164)
Write off	-	-	(900)	-	(108)	(1,008)
At 31 December 2010	243	120	10,620	836	18,545	30,364
Net book value						
At 31 December 2010	3,157	1,750	3,905	1,154	6,908	16,874

5 GOODWILL

	2011 RM'000	2010 RM'000
Cost:		
At 1 January	26,930	26,930
At 31 December	26,930	26,930

Goodwill of the Company arose from the business acquisition of Amanah General Insurance (M) Bhd ("AGIB"), Asia Insurance (M) Bhd ("AIMB") and PanGlobal Insurance Berhad ("PGI") in 2002, 2007 and 2009 respectively. As at 31 December 2011, the carrying amount of goodwill arising from the business acquisition of AGIB and AIMB was RM13,666,666 (2010: RM13,666,666) and RM13,263,065 (2010: RM13,263,065) respectively. Goodwill in relation to the acquisition of PGI was fully impaired in the year of acquisition.

The carrying amount of the remaining goodwill was allocated to the CGUs comprising the branch network transferred from AGIB and AIMB respectively. The recoverable amounts of the CGUs are determined based on value-in-use calculations. These calculations use pre-tax cash flow projections based on financial budgets approved by the directors covering a five-year period. Cash flows beyond the five-year period are extrapolated using estimated perpetual growth rates.

The key assumptions used in the value-in-use calculations for the respective CGUs are as follows:

	AGIB %	AIMB %
Average business growth rate	10	11
Perpetual growth rate (for terminal value)	5	5
Pre-tax discount rate	10	10
Loss ratio	53	56

The directors have determined the growth rate based on past performance and their expectations of market development. The weighted average growth rates are consistent with the forecasts included in industry reports, adjusted with the trends and expectations of the Company's branches. The discount rate used is pre-tax and reflects the general insurance industry's overall weighted average cost of capital.

If the estimated average business growth rate and perpetual growth rate had been 1% lower than management's estimate and if the pre-tax discount rate and loss ratio had been higher than management's estimate by 1%, the recoverable amounts of the CGUs will still be higher than the CGUs' net assets, and therefore there will not be any impairment in goodwill.

In conclusion, the key assumptions are not sensitive.

6 INVESTMENTS

The Company's financial investments are summarised by categories as follows:

	2011 RM'000	2010 RM'000
Held-to-maturity financial assets ("HTM")	55,784	80,964
Available-for-sale financial assets ("AFS")	532,314	524,516
Fair value through profit and loss ("FVTPL")	77,686	82,894
Loans and receivables ("LAR") (Note 9)	611,939	485,370
	1,277,723	1,173,744

The following investments mature after 12 months:

	2011 RM'000	2010 RM'000
HTM	35,222	45,545
AFS	71,610	70,849
LAR	10,822	11,275
	117,654	127,669

(a) Held-to-maturity ("HTM")

	2011 RM'000	2010 RM'000
Amortised cost		
Malaysian Government securities	45,288	80,356
Corporate debt securities – quoted in Malaysia	10,000	-
	55,288	80,356
Accrued interest income		
Malaysian Government securities	328	608
Corporate debt securities – quoted in Malaysia	168	-
	496	608
	55,784	80,964
Fair value		
Malaysian Government securities	45,830	81,333
Corporate debt securities – quoted in Malaysia	10,180	-
	56,010	81,333

6 INVESTMENTS (CONTINUED)

(b) Available-for-sale ("AFS")

	2011 RM'000	2010 RM'000
Fair value		
Corporate debt securities:		
Quoted in Malaysia	3,285	3,283
Unquoted	78,413	72,594
	81,698	75,877
Unit trust funds	449,782	447,478
	531,480	523,355
Accrued interest income		
Corporate debt securities:		
Quoted in Malaysia	69	68
Unquoted	765	1,093
	834	1,161
	532,314	524,516

(c) Fair value through profit and loss ("FVTPL")

	2011 RM'000	2010 RM'000
Fair value		
Held-for-trading:		
Equity securities	76,008	80,805
Unit and property trust funds	1,678	2,089
	77,686	82,894

6 INVESTMENTS (CONTINUED)

(d) Carrying values of financial assets

	HTM	AFS	FVTPL	Total
	RM'000	RM'000	RM'000	RM'000
At 1 January 2010	94,385	511,658	62,521	668,564
Purchases	-	26,053	36,479	62,532
Maturities	(13,126)	(8,272)	-	(21,398)
Disposals	-	(8,951)	(30,612)	(39,563)
Fair value gains recorded in :				
Income statement	-	-	14,506	14,506
Other comprehensive income	-	3,685	-	3,685
(Amortisation)/accretion adjustment	(295)	343	-	48
At 31 December 2010	80,964	524,516	82,894	688,374
Purchases	12,763	21,857	21,850	56,570
Maturities	(37,796)	(8,500)	-	(46,296)
Disposals	-	(8,272)	(33,377)	(41,649)
Fair value gains recorded in :				
Income statement	-	-	6,319	6,319
Other comprehensive income	-	2,675	-	2,675
(Amortisation)/accretion adjustment	(147)	38	-	(109)
At 31 December 2011	55,784	532,314	77,686	665,784

6 INVESTMENTS (CONTINUED)

(e) Fair values of financial assets

The following tables show investments recorded at fair value, analysed by the different basis of fair values as follows:

	AFS RM'000	FVTPL RM'000	Total RM'000
31 December 2011			
Quoted market price (Tier 1)	3,354	77,686	81,040
Valuation techniques (Tier 2)			
– market observable inputs	528,960	-	528,960
	532,314	77,686	610,000
31 December 2010			
Quoted market price (Tier 1)	3,351	82,894	86,245
Valuation techniques (Tier 2)			
– market observable inputs	521,165	-	521,165
	524,516	82,894	607,410

Tier 1
Included in the quoted price category are financial instruments that are measured in whole or in part by reference to published quotes in an active market. A financial instrument is regarded as quoted in an active market if quoted prices are readily and regularly available from an exchange, secondary market via dealer and broker, pricing service or regulatory agency and those prices represent actual and regularly occurring market transactions on an arm’s length basis. These are considered as Tier 1 valuation basis.

Tier 2
Financial instruments measured using a valuation technique based on assumptions that are supported by prices from observable current market transactions are instruments for which pricing is obtained via pricing services but where prices have not been determined in an active market, instruments with fair values based on broker quotes, investment in unit and property trusts with fair values obtained via fund managers and instruments that are valued using the Company’s own models whereby the majority of assumptions are market observable. These are considered as Tier 2 valuation basis.

Tier 3
Investments classified within Tier 3 have significant unobservable inputs, as they trade infrequently. Tier 3 instruments include private non quoted securities. As observables prices are not available for those securities, valuation techniques are used to derive the fair value. There were no investments valued using this basis during the financial year.

7 REINSURANCE ASSETS

	2011 RM'000	2010 RM'000
Reinsurance of insurance contracts (Note 13)	166,870	160,231
Allowance for impairment	(870)	(719)
	166,000	159,512

8 INSURANCE RECEIVABLES

	2011 RM'000	2010 RM'000
Due premiums including agents/brokers and co-insurers balances	103,621	78,462
Due from reinsurers and cedants	24,942	20,607
	128,563	99,069
Allowance for impairment	(11,856)	(12,603)
	116,707	86,466

9 LOANS AND RECEIVABLES (EXCLUDING INSURANCE RECEIVABLES)

	2011 RM'000	2010 RM'000
Amortised cost		
Fixed and call deposits with licensed financial institutions	571,257	454,154
Staff loans	7,476	7,691
Allowance for impairment	(168)	(168)
	7,308	7,523
	578,565	461,677
Accrued interest income		
Fixed and call deposits with licensed financial institutions	2,620	4,144
	2,620	4,144
	581,185	465,821

9 LOANS AND RECEIVABLES (EXCLUDING INSURANCE RECEIVABLES) (CONTINUED)

	2011 RM'000	2010 RM'000
Other receivables		
Knock-for-knock claims recoveries	2,940	2,717
Assets held under Malaysia Motor Insurance Pool	17,168	9,396
Other receivables, deposits and prepayments	11,231	8,023
	31,339	20,136
Allowance for impairment	(585)	(587)
	30,754	19,549
	611,939	485,370

	2011 RM'000	2010 RM'000
Fair value		
Fixed and call deposits with licensed financial institutions	571,470	463,151
Staff loans [net of impairment allowance of RM168,039 (2010: RM168,039)]	7,284	7,523
Other receivables	30,754	19,549
	609,508	490,223

The fair values of deposits approximate their carrying amounts due to their relatively short maturity period, except for negotiable instruments of deposits (“NID”) for which their fair values are based on the average indicative mid market prices obtained from three brokers/dealers.

The fair values of staff loans are established by comparing current market interest rates for similar financial instruments to the rates offered when the loans were first recognised together with appropriate market credits adjustments.

The fair values of other receivables approximate their carrying amount.

10 SHARE CAPITAL

	2011 RM'000	2010 RM'000
Authorised ordinary shares of RM1 each		
At beginning and end of year	300,000	300,000
Issued and fully paid ordinary shares of RM1 each		
At beginning and end of year	278,000	278,000

11 RETAINED EARNINGS

Under the single-tier tax system which came into effect from the year of assessment 2008, companies are not required to have tax credits under Section 108 of the Income Tax Act, 1967 for dividend payment purposes. Dividends paid under this system are tax exempt in the hands of shareholders.

Companies with Section 108 credits as at 31 December 2011 may continue to pay franked dividends until the Section 108 credits are exhausted or 31 December 2013, whichever is earlier, unless they opt to disregard the Section 108 credits to pay single-tier dividends under the special transitional provisions of the Finance Act, 2008.

Subject to agreement by the Inland Revenue Board, the Company has sufficient tax credits under Section 108 of the Income Tax Act, 1967 and tax exempt account to frank approximately RM23.3 million (2010: RM69.8 million) of its retained earnings as at 31 December 2011 if paid out as dividends. The extent of retained earnings not covered at that date amounted to RM310.6 million (2010: RM160.2 million).

12 OTHER RESERVES

	2011 RM'000	2010 RM'000
Revaluation reserve		
At 1 January	1,837	717
Revaluation (deficit)/surplus during the year	(280)	1,120
At 31 December	1,557	1,837
Available-for-sale reserve		
At 1 January	6,245	2,666
Fair value gain arising during the year	2,164	3,579
At 31 December	8,409	6,245
Total	9,966	8,082

13 INSURANCE CONTRACT LIABILITIES

	2011			2010		
	Gross RM'000	Reinsurance RM'000	Net RM'000	Gross RM'000	Reinsurance RM'000	Net RM'000
General insurance	868,758	(166,870)	701,888	845,561	(160,231)	685,330
	868,758	(166,870)	701,888	845,561	(160,231)	685,330
Provision for claims	425,263	(82,805)	342,458	444,558	(79,994)	364,564
Provision for incurred but not reported claims ("IBNR")	106,036	(18,872)	87,164	100,917	(19,587)	81,330
Provision for outstanding claims (i)	531,299	(101,677)	429,622	545,475	(99,581)	445,894
Premium liabilities (ii)	337,459	(65,193)	272,266	300,086	(60,650)	239,436
	868,758	(166,870)	701,888	845,561	(160,231)	685,330

(i) Provision for outstanding claims

	Gross RM'000 (2011)	Reinsurance RM'000 (2011)	Net RM'000 (2011)	Gross RM'000 (2010)	Reinsurance RM'000 (2010)	Net RM'000 (2010)
At 1 January	545,475	(99,581)	445,894	548,421	(99,996)	448,425
Claims incurred in the current accident year	398,958	(56,927)	342,031	420,549	(49,522)	371,027
Other movements in claims incurred in prior accident years	3,515	(330)	3,185	(13,313)	(3,281)	(16,594)
Movement of IBNR at 75% confidence level	5,119	715	5,834	28,086	(10,058)	18,028
Claims paid during the year	(421,768)	54,446	(367,322)	(438,268)	63,276	(374,992)
At 31 December	531,299	(101,677)	429,622	545,475	(99,581)	445,894

13 INSURANCE CONTRACT LIABILITIES (CONTINUED)

	2011			2010		
	Gross RM'000	Reinsurance RM'000	Net RM'000	Gross RM'000	Reinsurance RM'000	Net RM'000
(ii) Premium liabilities						
At 1 January	300,086	(60,650)	239,436	305,465	(65,763)	239,702
Premiums written in the year (Note 19(a))	782,499	(153,985)	628,514	687,937	(126,694)	561,243
Premiums earned during the year (Note 19(a))	(745,126)	149,442	(595,684)	(693,316)	131,807	(561,509)
At 31 December	337,459	(65,193)	272,266	300,086	(60,650)	239,436

14 DEFERRED TAXATION

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when the deferred taxes relate to the same tax authority.

(a) The deferred tax balances of the Company after appropriate offsetting are as follows:

	2011 RM'000	2010 RM'000
Deferred tax liabilities	(6,290)	(5,850)
Subject to income tax:		
Deferred tax assets (before offsetting)		
- Receivables	3,951	3,519
- Financial assets at HTM	194	157
- Financial assets at FVTPL	84	-
	4,229	3,676
Offsetting	(4,229)	(3,676)
Deferred tax assets (after offsetting)	-	-
Deferred tax liabilities (before offsetting)		
- Property, plant and equipment	2,171	1,736
- Premium liabilities	1,090	1,004
- Financial assets at AFS	2,779	2,199
- Financial assets at FVTPL	4,479	4,587
	10,519	9,526
Offsetting	(4,229)	(3,676)
Deferred tax liabilities (after offsetting)	6,290	5,850

14 DEFERRED TAXATION (CONTINUED)

(b) The movements in deferred tax balances during the year are as follows:

	2011 RM'000	2010 RM'000
At 1 January	(5,850)	(1,672)
Credited/(charged) to income statement (Note 24)		
- Receivables	432	(813)
- Property, plant and equipment	(435)	(772)
- Premium liabilities	(86)	(355)
- Financial assets at FVTPL	192	(2,205)
- Financial assets at HTM	37	73
	140	(4,072)
Charged to equity :		
- Financial assets at AFS	(580)	(106)
Total movement for the year	(440)	(4,178)
At 31 December	(6,290)	(5,850)

15 OTHER FINANCIAL LIABILITIES

	2011	2010
Deposits received from reinsurers	10,865	1,393

The carrying amounts disclosed above approximate their fair value at the date of statement of financial position.

All amounts are payable within one year.

16 INSURANCE PAYABLES

	2011 RM'000	2010 RM'000
Due to agents and intermediaries	31,880	41,412
Due to reinsurers and cedants	37,656	36,418
	69,536	77,830

The carrying amounts disclosed above approximate their fair values at the date of statement of financial position.

All amounts are payable within one year.

17 OTHER PAYABLES

	2011 RM'000	2010 RM'000
Cash collaterals held on contract bonds	4,313	312
Payroll liabilities	11,418	10,925
Other payables and accrued expenses	23,155	28,715
	38,886	39,952

The carrying amounts disclosed above approximate their fair values at the date of statement of financial position.

18 OPERATING REVENUE

	2011 RM'000	2010 RM'000
Gross earned premiums (Note 19(a))	745,126	693,316
Investment income (Note 20)	41,522	36,885
	786,648	730,201

19 NET EARNED PREMIUMS

		2011 RM'000	2010 RM'000
(a)	Gross earned premiums		
	Insurance contracts	782,499	687,937
	Change in gross premium liabilities	(37,373)	5,379
		745,126	693,316
(b)	Premiums ceded		
	Insurance contracts	(153,985)	(126,694)
	Change in gross premium liabilities	4,543	(5,113)
		(149,442)	(131,807)
	Net earned premiums	595,684	561,509

20 INVESTMENT INCOME

	2011 RM'000	2010 RM'000
FVTPL financial assets:		
Dividend income		
- equity securities quoted in Malaysia	2,497	2,835
HTM financial assets – interest income	2,999	7,014
AFS financial assets – interest income	2,934	-
AFS financial assets – dividend income	15,931	15,529
LAR financial assets – interest income	17,161	11,507
	41,522	36,885

21 REALISED GAINS AND LOSSES

	2011 RM'000	2010 RM'000
Property and equipment:		
Realised gains	4	531
Financial assets at FVTPL – held-for-trading:		
Realised loss	(2,290)	(522)
AFS financial assets:		
Realised gains:		
Corporate debt securities – quoted in Malaysia	136	153
Unit trust funds	(148)	127
	(2,298)	289

22 OTHER OPERATING INCOME/(EXPENSES)

	2011 RM'000	2010 RM'000
Agency fees received	780	704
Stamp duty	-	(5,177)
Other income	689	359
	1,469	(4,114)

23 MANAGEMENT EXPENSES

	2011 RM'000	2010 RM'000
Employee benefits expense (Note 23(a))	58,201	54,186
Directors' remuneration (Note 23(b))	655	655
Auditors' remuneration:		
- statutory audits	202	170
- other services	64	55
Depreciation of property, plant and equipment	5,501	5,541
Reversal of allowance for impairment of insurance receivables	(598)	(347)
Bad debts impaired	405	122
Rental of office premises	7,704	7,370
PIDM levies	1,556	1,427
Entertainment	4,467	4,144
Training expenses	1,330	1,421
Management fees	2,229	1,170
Repairs and maintenance	1,089	1,121
Motor vehicle expenses	2,958	2,846
Travelling	707	766
Advertising	73	29
Printing and stationery	2,941	2,647
Postage and telephone	1,778	1,867
Electronic data processing expenses	5,815	5,602
Bank collection charges	6,362	5,350
Other expenses	2,752	2,569
	106,191	98,711

(a) Employee benefits expense

	2011 RM'000	2010 RM'000
Staff salary and bonus	48,372	45,290
Social security contributions	417	411
Contributions to Employees' Provident Fund	6,869	6,513
Other benefits	2,543	1,972
	58,201	54,186

23 MANAGEMENT EXPENSES (CONTINUED)

(b) Directors' remuneration

The details of remuneration receivable by Directors during the year are as follows:

	2011 RM'000	2010 RM'000
Executive:		
Salaries and other emoluments	337	317
Bonus	92	92
	429	409
Non-executive:		
Fees	213	233
Other benefits	13	13
	226	246
	655	655
Represented by:		
Directors' fees	213	233
Amount included in employee benefits expense	442	422

The estimated cash value of benefits-in-kind provided to the directors of the Company amounted to RM139,247 (2010: RM151,761)

The remuneration, including benefits-in-kind, attributable to the Chief Executive Officer of the Company during the year amounted to RM737,630 (2010: RM597,720)

24 TAXATION

	2011 RM'000	2010 RM'000
Current income tax	(30,453)	(18,468)
Deferred tax:		
Relating to origination and reversal of temporary differences (Note 14 (b))	140	(4,072)
	(30,313)	(22,540)

The income tax for the Company is calculated based on the tax rate of 25% (2010: 25%) of the estimated assessable profit for the year.

24 TAXATION (CONTINUED)

A reconciliation of income tax expense applicable to profit before taxation at the statutory income tax rate to income tax expense at the effective income tax rate is as follows:

	2011 RM'000	2010 RM'000
Profit before tax	133,572	89,011
Taxation at Malaysian statutory tax rate of 25%	33,393	22,253
Income not subject to tax	(3,998)	(2,556)
Expenses not deductible for tax purposes	2,020	2,967
Income taxed at a lower tax rate	(1,102)	(124)
Tax expense for the year	30,313	22,540

25 EARNINGS PER SHARE

Basic earnings per share is calculated by dividing the profit for the financial year attributable to ordinary equity holders of the Company by the weighted average number of ordinary shares in issue during the financial year.

	2011 RM'000	2010 RM'000
Profit attributable to ordinary equity holders	103,259	66,471
Weighted average number of shares in issue	278,000	278,000
Basic earnings per share (sen)	37	24

There have been no other transactions involving ordinary shares between the reporting date and the date of completion of these financial statements.

26 OPERATING LEASE ARRANGEMENTS

The Company has rental commitments under non-cancellable operating leases and the future minimum lease payments as at 31 December 2011 are as follows:

	2011 RM'000	2010 RM'000
Not later than 1 year	7,076	4,114
Later than 1 year and not later than 5 years	9,002	1,051
	16,078	5,165

27 CAPITAL COMMITMENTS

	2011 RM'000	2010 RM'000
Capital expenditure		
Approved and contracted for:		
Property, plant and equipment	5,532	1,254
	5,532	1,254

28 SIGNIFICANT RELATED PARTY DISCLOSURES

The related parties of, and their relationship with the Company as at 31 December 2011, are as follows:

Related parties	Country of incorporation	Relationship
Tokio Marine Holding Inc. ("TMH")	Japan	Ultimate holding company
Tokio Marine Asia Pte. Ltd. ("TM Asia")	Singapore	Holding company
Tokio Marine and Nichido Fire Insurance Company Limited ("TMNF")	Japan	Subsidiary of TMH
Tokio Marine Global Re Limited	Ireland	Subsidiary of TMNF
Tokio Marine Global Re Limited	Labuan	Subsidiary of TMNF

28 SIGNIFICANT RELATED PARTY DISCLOSURES (CONTINUED)

(a) In the normal course of business, the Company undertakes at agreed terms and prices, various transactions with its holding company and other companies deemed related parties by virtue of being subsidiaries of its holding company.

The significant related party transactions during the year and balances at the end of the year between the Company and its related parties are set out below:

Significant related party transactions

Income/(expenses):

	2011 RM'000	2010 RM'000
Transactions with holding company:		
Underwriting risk survey fees paid	(259)	(210)
Transactions with related companies:		
Premium ceded	(48,711)	(31,553)
Commission received	11,079	7,745
Agency fees received	780	696
Rental paid	(189)	(159)
Claims paid on behalf of a related company	(1,914)	(1,615)
Claims recoveries and paid	9,464	16,062
Insurance receivables		
Advances made on behalf of related companies	302	461
Claim recoveries due from related companies	2,237	644
Insurance payables		
Reinsurance premiums due to related companies	(17,053)	(4,921)

(i) The sale of insurance contracts was made according to the published prices and conditions offered to the major customers of the Company.

28 SIGNIFICANT RELATED PARTY DISCLOSURES (CONTINUED)

(b) Key management personnel's remuneration

The remuneration of directors and other members of key management during the year are as follows:

	2011 RM'000	2010 RM'000
Salary	3,313	3,377
Bonus	974	813
Defined contribution plan	587	589
Other benefits	349	387
	5,223	5,166
Included in the total key management personnel are		
Directors' remuneration (Note 23(b))	429	409

Key management personnel are those persons having authority and responsibility for planning, directing and controlling the activities of the entity, directly or indirectly. The key management personnel of the Company include the Executive Director, Chief Executive Officer, Deputy Chief Executive Officer, General Managers and other senior management personnel of the Company.

29 INSURANCE RISK

Insurance risk includes the risk of incurring higher claims costs than expected owing to the unpredictable nature of claims, especially in terms of frequency, severity and the risk of change in economic and legal conditions or behavioral patterns affecting insurance pricing and conditions of insurance or reinsurance cover. This may result in the insurer receiving too little or insufficient premium for the risks it underwrites and insufficient liquidity to pay claims, which are higher than expected. The Company seeks to minimise insurance risks with a balanced mix of business portfolio and by strictly observing the underwriting guidelines and limits, prudent estimation of claims reserving and high standard of security vetting of all its reinsurers.

The table below sets out the concentration of general insurance contracts claims liabilities :

	31 December 2011			31 December 2010		
	Gross	Reinsurance	Net	Gross	Reinsurance	Net
	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
Motor	604,497	(54,339)	550,158	570,154	(22,551)	547,603
Fire	77,320	(42,371)	34,949	85,010	(52,769)	32,241
Marine, Aviation and Transit	36,615	(15,985)	20,630	42,741	(21,793)	20,948
Miscellaneous	150,326	(54,175)	96,151	147,656	(63,118)	84,538
	868,758	(166,870)	701,888	845,561	(160,231)	685,330

Key Assumptions

The principal assumptions underlying the estimation of liabilities is that the Company's future claims development will follow a similar pattern to past claims development experience. This includes assumptions in respect of average claim costs, claim handling costs, claim inflation factors and average number of claims for each accident year.

Additional qualitative judgments are used to assess the extent to which past trends may not apply in the future, for example, isolated occurrence, changes in market factors such as public attitude to claiming, economic conditions, as well as internal factors, such as, portfolio mix, policy conditions and claims handling procedures. Judgment is further used to assess the extent to which external factors, such as, judicial decisions and government legislation affect the estimates.

29 INSURANCE RISK (CONTINUED)

Other key circumstances affecting the reliability of assumptions include variation in interest rates, delays in settlement and changes in foreign currency rates.

Sensitivity analysis

The general insurance claim liabilities are sensitive to the key assumptions shown below. It has not been possible to quantify the sensitivity of certain assumptions, such as, legislative changes or uncertainty in the estimation process.

The analysis below is performed for reasonably possible movements in key assumptions with all other assumptions held constant, showing the impact on gross and net liabilities, profit before tax and equity. The correlation of assumptions will have a significant effect in determining the ultimate claims liabilities, but to demonstrate the impact due to changes in assumptions, assumptions had to be changed on an individual basis. It should be noted that movements in these assumptions are non-linear.

	Change in assumptions	Impact on gross liabilities	Impact on net liabilities	Impact on profit before tax	Impact on equity
		RM'000	RM'000	RM'000	RM'000
31 December 2011					
Average claim cost	+10%	48,552	40,596	(40,596)	(30,447)
Average number of claims	+10%	45,514	38,251	(38,251)	(28,689)
Average claim settlement period	Increased by 6 months	11,611	10,233	(10,233)	(7,674)
31 December 2010					
Average claim cost	+10%	50,955	43,314	(43,314)	(32,486)
Average number of claims	+10%	48,333	40,869	(40,869)	(30,652)
Average claim settlement period	Increased by 6 months	12,479	11,068	(11,068)	(8,301)

Claims development table

The following tables show the estimate of cumulative incurred claims, including both claims notified and IBNR for each successive accident year at each date of statement of financial position, together with cumulative payments to-date.

In setting provisions for claims, the Company gives consideration to the probability and magnitude of future experience being more adverse than assumed and exercises a degree of caution in setting reserves when there is considerable uncertainty. In general, the uncertainty associated with the ultimate claims experience in an accident year is greatest when the accident year is at an early stage of development and the margin necessary to provide the necessary confidence in adequacy of provision is relatively at its highest. As claims develop and the ultimate cost of claims becomes more certain, the relative level of margin maintained should decrease.

Company No.

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TOKIO MARINE INSURANS (MALAYSIA) BERHAD
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NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2011 (CONTINUED)

29 INSURANCE RISK (CONTINUED)

Gross General Insurance Claims Liabilities for 2011:

	2004 RM'000	2005 RM'000	2006 RM'000	2007 RM'000	2008 RM'000	2009 RM'000	2010 RM'000	2011 RM'000	Total RM'000
Accident year									
At end of accident year					533,414	446,393	431,330	441,994	
One year later				463,146	402,290	452,366	395,948		
Two years later			399,463	356,743	401,036	453,901			
Three years later		353,272	356,455	357,909	392,799				
Four years later	311,715	313,645	355,866	351,870					
Five years later	276,127	314,487	353,386						
Six years later	271,827	312,991							
Seven years later	285,009								
Current estimate of cumulative claims incurred	285,009	312,991	353,386	351,870	392,799	453,901	395,948	441,994	2,987,898
At end of accident year	101,238	134,782	152,488	149,362	163,898	181,451	181,451	195,030	
One year later	220,222	247,101	290,093	270,612	308,827	352,834	319,708		
Two years later	239,320	273,367	316,826	302,795	345,360	406,672			
Three years later	249,406	283,950	331,151	321,486	364,154				
Four years later	256,290	292,994	338,775	327,953					
Five years later	261,157	301,134	341,551						
Six years later	264,812	303,700							
Seven years later	269,713								
Current payments to-date	269,713	303,700	341,551	327,953	364,154	406,672	319,708	195,030	2,528,481
Direct and facultative inwards	15,295	9,291	11,836	23,917	28,645	47,229	76,241	246,964	459,418
Treaty Inwards									1,131
MMIP									18,753
Best estimate of claim liabilities									479,302
Claim handling expenses									3,780
Fund PRAD at 75% Confidence Interval									48,217
Gross general insurance claim liabilities									531,299

TOKIO MARINE INSURANS (MALAYSIA) BERHAD
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NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2011 (CONTINUED)

29 INSURANCE RISK (CONTINUED)

Gross General Insurance Claims Liabilities for 2010:

	2003	2004	2005	2006	2007	2008	2009	2010	Total
	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
Accident year									
At end of accident year						533,414	446,393	431,330	
One year later					436,143	402,290	452,366		
Two years later				399,463	356,743	401,036			
Three years later			352,272	356,455	357,909				
Four years later		311,715	313,645	355,886					
Five years later	273,693	276,127	314,487						
Six years later	232,544	271,827							
Seven years later	246,686								
Current estimate of cumulative claims incurred	246,686	271,827	314,487	355,886	357,909	401,036	452,366	431,330	2,831,527
At end of accident year	86,458	101,238	134,782	152,488	149,362	163,898	181,451	184,164	
One year later	187,042	220,222	247,101	290,093	270,612	308,827	352,834		
Two years later	204,826	239,320	273,367	316,826	302,795	345,360			
Three years later	213,726	249,406	283,950	331,151	321,486				
Four years later	219,582	256,290	292,994	338,775					
Five years later	224,262	261,157	301,134						
Six years later	226,563	264,812							
Seven years later	233,784								
Current payments to-date	233,784	264,812	301,134	338,775	321,486	345,360	352,834	184,164	2,342,349
Direct and facultative inwards	12,902	7,014	13,353	17,111	36,423	55,676	99,532	247,166	489,178
Treaty Inwards									5,217
Best estimate of claim liabilities									494,395
Claim handling expenses									3,621
Fund PRAD at 75% Confidence Interval									47,459
Gross general insurance claim liabilities									545,475

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NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2011 (CONTINUED)

29 INSURANCE RISK (CONTINUED)

Net General Insurance Claims Liabilities for 2011:

	2004	2005	2006	2007	2008	2009	2010	2011	Total
	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
Accident year									
At end of accident year	133,496	154,713	218,302	252,853	301,578	396,603	376,339	379,532	
One year later	122,073	148,721	237,002	238,128	343,260	389,840	358,844		
Two years later	123,271	172,632	220,062	290,858	345,339	381,842			
Three years later	141,496	167,838	290,413	291,218	338,489				
Four years later	140,932	234,543	289,190	287,193					
Five years later	200,347	234,232	285,962						
Six years later	195,447	232,205							
Seven years later	201,727								
Current estimate of cumulative claims incurred	201,727	232,205	285,962	287,193	338,489	381,842	358,844	379,532	2,465,794
At end of accident year	85,805	107,897	129,082	127,632	149,757	167,020	168,157	170,064	
One year later	158,997	188,045	238,298	233,429	270,373	305,884	297,845		
Two years later	170,334	202,075	257,302	254,675	299,698	340,894			
Three years later	176,740	211,602	268,475	269,148	316,270				
Four years later	182,810	217,999	275,448	274,809					
Five years later	187,414	224,880	277,871						
Six years later	190,703	227,365							
Seven years later	194,232								
Current payments to-date	194,232	227,365	277,871	274,809	316,270	340,894	297,845	170,064	2,099,350
Direct and facultative inward	7,495	4,840	8,091	12,384	22,219	40,948	60,999	209,468	366,444
Treaty Inwards									1,131
MMIP									18,753
Best estimate of claim liabilities									386,328
Claim handling expenses									3,780
Fund PRAD at 75% Confidence Interval									39,514
Net general insurance claim liabilities									429,622

29 INSURANCE RISK (CONTINUED)

Net General Insurance Claims Liabilities for 2010:

	2003 RM'000	2004 RM'000	2005 RM'000	2006 RM'000	2007 RM'000	2008 RM'000	2009 RM'000	2010 RM'000	Total RM'000
Accident year									
At end of accident year	122,292	133,496	154,713	218,302	252,853	301,578	396,603	376,339	
One year later	125,202	122,073	148,721	237,002	238,128	343,260	389,840		
Two years later	125,949	123,271	172,632	220,062	290,858	345,339			
Three years later	123,675	141,496	167,838	290,413	291,218				
Four years later	133,781	140,932	234,543	289,191					
Five years later	146,183	200,347	234,232						
Six years later	185,972	195,447							
Seven years later	194,921								
Current estimate of cumulative claims incurred	194,921	195,447	234,232	289,191	291,218	345,840	389,840	376,339	2,316,528
At end of accident year	74,375	85,805	107,897	129,082	127,632	149,757	167,020	168,157	
One year later	151,293	158,997	188,045	238,298	233,429	270,373	305,884		
Two years later	163,833	170,334	202,075	257,302	254,675	299,698			
Three years later	170,502	176,740	211,602	268,475	269,148				
Four years later	175,261	182,810	217,999	275,448					
Five years later	178,994	187,414	224,880						
Six years later	181,026	190,703							
Seven years later	187,273								
Current payments to-date	187,273	190,703	224,880	275,448	269,148	299,698	305,884	168,157	1,921,191
Direct and facultative inwards	7,648	4,744	9,352	13,743	22,070	45,642	83,956	208,182	395,337
Treaty Inwards									5,217
Best estimate of claim liabilities									400,554
Claim handling expenses									3,621
Fund PRAD at 75% Confidence Interval									41,719
Net general insurance claim liabilities									445,894

30 FINANCIAL RISK

The Company is exposed to financial risks including credit, interest rate, currency risks and market risk during the normal course of its business. The Company has, in place, established procedures and guidelines to monitor the risks on an ongoing basis.

Credit risk

Credit risk represents the loss that would be recognised if counterparties to insurance, reinsurance and investment transactions fail to perform as contracted. Management has a credit policy in place and the exposure to these credit risks is monitored consistently.

At the date of the statement of financial position, there were no significant concentrations of credit risk. The maximum exposure to credit risk is represented by the carrying amount of each financial asset.

The maximum exposure to credit risk for the components in the financial statements is shown below:

	Note	2011 RM'000	2010 RM'000
31 December 2011			
HTM financial assets	6(a)		
Malaysian Government Securities		45,616	80,964
Corporate debt securities		10,168	-
LAR (excluding insurance receivables)	9		
Staff loans		7,308	7,523
Fixed and call deposits		573,877	458,298
AFS financial assets	6(b)		
Corporate debt securities		82,532	77,038
Unit trust funds		449,782	447,478
Financial assets at FVTPL	6(c)		
Equity securities		76,008	80,805
Unit trust funds		1,678	2,089
Reinsurance assets-claim liabilities	7	100,807	98,861
Insurance receivables	8	116,707	86,466
Cash and bank balances		25,829	31,015
		1,490,312	1,370,537

30 FINANCIAL RISK (CONTINUED)

Credit exposure by credit rating

The table below provides information regarding the credit risk exposure of the Company by classifying assets according to the Company's credit ratings of counterparties.

	Neither past-due nor impaired			
	Investment grade	Non-investment grade: satisfactory	Past-due but not impaired	Total
	RM'000	RM'000	RM'000	RM'000
31 December 2011				
HTM financial assets				
Malaysian Government Securities	45,616	-	-	45,616
Corporate debt securities	10,168	-	-	10,168
LAR				
Staff loans	-	7,308	-	7,308
Fixed and call deposits	509,296	64,581	-	573,877
AFS financial assets				
Corporate debt securities	82,532	-	-	82,532
Unit trust funds	393,206	56,576	-	449,782
Financial assets at FVTPL				
Equity securities	76,008	-	-	76,008
Unit trust funds	1,678	-	-	1,678
Reinsurance assets-claim liabilities	-	100,807	-	100,807
Insurance receivables	-	45,299	71,408	116,707
Cash and bank balances	-	25,829	-	25,829
	1,118,504	300,400	71,408	1,490,312

30 FINANCIAL RISK (CONTINUED)

Credit exposure by credit rating (continued)

The table below provides information regarding the credit risk exposure of the Company by classifying assets according to the Company's credit ratings of counterparties.

	Neither past-due nor impaired			
	Investment Grade RM'000	Non-investment grade: satisfactory RM'000	Past-due but not impaired RM'000	Total RM'000
31 December 2010				
HTM financial assets				
Malaysian Government Securities	80,964	-	-	80,964
LAR				
Staff loans	-	7,523	-	7,523
Fixed and call deposits	397,698	60,600	-	458,298
AFS financial assets				
Corporate debt securities	77,038	-	-	77,038
Unit trust funds	447,478	-		447,478
Financial assets at FVTPL				
Equity securities	80,805	-	-	80,805
Unit trust funds	2,089	-	-	2,089
Reinsurance assets- claim liabilities	-	98,861	-	98,861
Insurance receivables	-	29,044	57,422	86,466
Cash and bank balances	-	31,015	-	31,015
	1,086,072	227,043	57,422	1,370,537

30 FINANCIAL RISK (CONTINUED)

Credit exposure by credit rating (continued)

The table below provides information regarding the credit risk exposure of the Company by classifying assets according to the Rating Agency of Malaysia's ("RAM") or Malaysian Rating Corporation Berhad's ("MARC") credit ratings of counterparties. AAA is the highest possible rating. Assets that fall outside the range of AAA to BBB are classified as speculative grade.

	AAA	AA	A	BBB	Not rated	Total
	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
31 December 2011						
HTM financial assets						
Malaysian Government Securities	45,616	-	-	-	-	45,616
Corporate debt securities	-	10,168	-	-	-	10,168
LAR						
Staff loans	-	-	-	-	7,308	7,308
Fixed and call deposits	214,838	210,155	4,009	80,294	64,581	573,877
AFS financial assets						
Corporate debt securities	21,363	50,884	10,285	-	-	82,532
Unit trust funds	275,120	74,432	43,654	-	56,576	449,782
Financial assets at FVTPL						
Equity securities	76,008	-	-	-	-	76,008
Unit trust funds	1,678	-	-	-	-	1,678
Reinsurance assets-claims liabilities	3,143	22,454	39,350	430	35,430	100,807
Insurance receivables	-	2,609	10,616	25	103,457	116,707
Cash and bank balances	-	-	-	-	25,829	25,829
	637,766	370,702	107,914	80,749	293,181	1,490,312

30 FINANCIAL RISK (CONTINUED)

Credit exposure by credit rating (continued)

The table below provides information regarding the credit risk exposure of the Company by classifying assets according to the Rating Agency of Malaysia's ("RAM") or Malaysian Rating Corporation Berhad's ("MARC"). AAA is the highest possible rating. Assets that fall outside the range of AAA to BBB are classified as speculative grade.

	AAA	AA	A	BBB	Not rated	Total
	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
31 December 2010						
HTM financial assets						
Malaysian Government Securities	80,964	-	-	-	-	80,964
Corporate debt securities	-	-	-	-	-	-
LAR						
Staff loans	-	-	-	-	7,523	7,523
Fixed and call deposits	206,808	104,533	65,357	21,000	60,600	458,298
AFS financial assets						
Corporate debt securities	16,029	50,798	10,211	-	-	77,038
Unit trust funds	358,775	64,694	24,009	-	-	447,478
Financial assets at FVTPL						
Equity securities	80,805	-	-	-	-	80,805
Unit trust funds	2,089	-	-	-	-	2,089
Reinsurance assets – claim liabilities	1,504	7,269	52,055	3,758	34,275	98,861
Insurance receivables	19	2,299	5,518	439	78,191	86,466
Cash and bank balances	-	-	-	-	31,015	31,015
	746,993	229,593	157,150	25,197	211,604	1,370,537

30 FINANCIAL RISK (CONTINUED)

Credit exposure by credit rating (continued)

The table below provides information regarding the credit risk exposure of the Company according to the Company's categorisation of counter-parties by RAM's credit rating.

	AAA	AA	A	BBB	Not rated	Total
	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
31 December 2011						
Investment grade	634,623	345,639	57,948	80,294	-	1,118,504
Non-investment grade						
Satisfactory	3,143	24,887	49,706	455	222,209	300,400
Past-due but not impaired	-	176	260	-	70,972	71,408
	637,766	370,702	107,914	80,749	293,181	1,490,312
31 December 2010						
Investment grade	745,470	220,025	99,577	21,000	-	1,086,072
Non-investment grade						
Satisfactory	1,504	7,290	54,075	3,810	160,364	227,043
Past-due but not impaired	19	2,278	3,498	387	51,240	57,422
	746,993	229,593	157,150	25,197	211,604	1,370,537

It is the Company's policy to maintain accurate and consistent risk ratings across its credit portfolio. This enables management to focus on the applicable risks and the comparison of credit exposures across all lines of business and products. The rating system is supported by a variety of financial analytics combined with processed market information to provide the main inputs for the measurement of counterparty risk. All internal risk ratings are tailored to the various categories and are derived in accordance with the Company's rating policy. The attributable risk ratings are assessed and updated regularly.

During the year, no credit exposure limits were exceeded.

The Company actively manages its product mix to ensure that there is no significant concentration of credit risk.

30 FINANCIAL RISK (CONTINUED)

Age analysis of financial assets past-due but not impaired

	< 30 days	31 to 60 days	61 to 90 days	91 to 180 days	> 180 days	Total
31 December 2011						
Insurance receivables (RM'000)	37,718	7,331	6,254	2,859	17,246	71,408
	37,718	7,331	6,254	2,859	17,246	71,408
31 December 2010						
Insurance receivables (RM'000)	37,113	11,765	3,855	2,451	2,238	57,422
	37,113	11,765	3,855	2,451	2,238	57,422

Impaired financial assets

At 31 December 2011, based on individual and collective assessment of receivables, there are impaired insurance receivables of RM13,479,000 (2010: RM14,077,000). For assets to be classified as "past-due and impaired", contractual payments must be in arrears between twelve (12) to twenty four (24) months. No collateral is held as security for any past due or impaired assets. The Company records impairment allowance for loans and receivables and insurance receivables in separate "Allowance for Impairment" accounts. A reconciliation of the allowance for impairment losses for loans and receivables and insurance receivables is as follows:

	Insurance receivables	
	2011	2010
	RM'000	RM'000
At 1 January	14,077	14,423
Charge for the year	1,537	466
Recoveries	(2,135)	(812)
At 31 December	13,479	14,077

30 FINANCIAL RISK (CONTINUED)

Liquidity risk

Liquidity risk is the risk that the Company will encounter difficulty in meeting obligations associated with financial instruments. In respect of catastrophic events, there is also a liquidity risk associated with the timing differences between gross cash outflows and expected reinsurance recoveries. The Company's policy is to maintain adequate liquidity to meet its liquidity needs under all conditions.

There are guidelines on asset allocation, portfolio limit structures and maturity profiles of assets, in order to ensure sufficient funding is available to meet insurance and investment contracts obligations.

The Company's catastrophe excess-of-loss reinsurance contract contains clauses permitting the Company to make cash call claims and receive immediate payment for large loss should claim events exceed a certain amount.

Maturity profiles

The table in the following page summarises the maturity profile of the financial assets and financial liabilities of the Company based on remaining undiscounted contractual obligations, including interest payable and receivable.

For insurance contracts liabilities and reinsurance assets, maturity profiles are determined based on estimated timing of net cash outflows from the recognised insurance liabilities.

Premiums liabilities and the reinsurers' share of premiums liabilities have been excluded from the analysis as they are not financial liabilities as there are no contractual obligations.

30 FINANCIAL RISK (CONTINUED)

Liquidity risk (continued)

			Contractual Cash Flow (undiscounted)				
	Carrying value RM'000	No maturity date RM'000	Up to a year RM'000	1 – 3 years RM'000	3 – 5 years RM'000	5 – 15 years RM'000	Total RM'000
31 December 2011							
Financial investments:							
HTM	55,784	-	22,309	36,545	-	-	58,854
AFS	532,314	449,782	14,604	21,406	26,867	37,451	550,110
FVTPL	77,686	77,686	-	-	-	-	77,686
Reinsurance assets – claims liabilities	100,807	-	54,654	29,527	10,167	6,459	100,807
Insurance receivables	116,707	-	116,707	-	-	-	116,707
LAR (excluding insurance receivables)	581,185	-	570,946	2,915	2,231	7,689	583,781
Cash and bank balances	25,829	25,829	-	-	-	-	25,829
Total financial assets	1,490,312	553,297	779,220	90,393	39,265	51,599	1,513,774
General insurance claims liabilities	531,299	-	317,545	143,448	50,998	19,308	531,299
Other financial liabilities	10,865	-	10,865	-	-	-	10,865
Insurance payables	69,536	-	69,536	-	-	-	69,536
Other payables	38,886	-	38,886	-	-	-	38,886
Total financial liabilities	650,586	-	436,832	143,448	50,998	19,308	650,586

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NOTES TO THE FINANCIAL STATEMENTS - 31 DECEMBER 2011 (CONTINUED)

30 FINANCIAL RISK (CONTINUED)

Liquidity risk (continued)

			Contractual Cash Flow (undiscounted)				
	Carrying value	No maturity date	Up to a Year	1 – 3 years	3 – 5 years	5 – 15 years	Total
	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
31 December 2010							
Financial investments:							
HTM	80,964	-	38,104	42,312	5,352	-	85,768
AFS	524,516	447,478	11,116	26,408	30,082	30,204	545,288
FVTPL	82,894	82,894	-	-	-	-	82,894
Reinsurance assets – claims liabilities	98,861	-	53,995	29,544	9,769	5,553	98,861
Insurance receivables	86,466	-	86,466	-	-	-	86,466
LAR (excluding insurance receivables)	465,821	-	462,601	2,966	2,391	3,649	471,607
Cash and bank balances	31,015	31,015	-	-	-	-	31,015
Total financial assets	1,370,537	563,387	652,282	101,230	47,594	39,406	1,401,899
General insurance claims liabilities	545,475	-	317,120	147,033	57,255	24,067	545,475
Other financial liabilities	1,393	-	1,393	-	-	-	1,393
Insurance payables	77,830	-	77,830	-	-	-	77,830
Other payables	39,952	-	39,952	-	-	-	39,952
Total financial liabilities	664,650	-	436,295	147,033	57,255	24,067	664,650

30 FINANCIAL RISK (CONTINUED)

Market risk

Market risk is the risk that the value of the financial instrument will fluctuate as a result of the potential adverse changes in market prices. Market risk comprises three (3) types of risk – market interest rates risk, foreign exchange rates (currency risk), and market prices (price risk).

The Company invest in equities, unit trusts and fixed income securities either managed internally or outsourced to professional fund managers. To deal with these risks, the Board has formulated investment policies and strategies and meetings were held during the financial year to monitor the performance of the fund managers.

Interest rate risk

Interest rate risk is the risk that the value or future cash flows of a financial instrument will fluctuate because of changes in market interest rate.

Floating rate instruments expose the Company to cash flow interest risk, whereas fixed rate instruments expose the Company to fair value interest.

Changes in the market interest rates will affect the Company's investment earnings as the Company places part of its excess funds in interest bearing instruments and bank deposits. The Company therefore has set strict investment guidelines in place that provide for careful selection of issuers and financial institutions to ensure that the risks are well spread and the investments generate favourable as well as safe returns for the shareholders.

The following table demonstrates the sensitivity to a reasonably possible change in interest rates on the deposits and fixed income securities of the Company:

	Impact on profit before tax	Impact on equity*
31 December 2011		
Change in interest rates		
+50 basis points	2,513	1,885
- 50 basis points	(2,513)	(1,885)
31 December 2010		
Change in interest rates		
+50 basis points	2,040	1,530
- 50 basis points	(2,040)	(1,530)

*Impact on equity reflects adjustments for tax, when applicable

Foreign currency risk

The Company is exposed to foreign currency risks on transactions that are denominated other than in Ringgit Malaysia. These exposures are monitored on an ongoing basis and the Company's exposure is minimal.

The Company does not hedge its foreign currency risk.

30 FINANCIAL RISK (CONTINUED)

Price risk

Equity price risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in market prices (other than those arising from interest rate/profit yield risk or currency risk), whether those changes are caused by factors specific to the individual financial instrument or its issuer or factors affecting similar financial instruments traded in the market.

The Company's equity price risk exposure relates to financial assets and financial liabilities whose values will fluctuate as a result of changes in market prices.

The Company's price risk policy requires it to manage such risks by setting and monitoring objectives and constraints on investments, diversification plans, limits on investments in each country, sector, market and issuer, having regard also to such limits stipulated by BNM. The Company complies with BNM stipulated limits during the financial year and has no significant concentration of price risk.

The analysis below is performed for reasonably possible movements in key variables with all other variables held constant, showing the impact on Profit before Tax (due to changes in fair value of financial assets and liabilities whose changes in fair values are recorded in income statement) and Equity (that reflects adjustments to Profit before Tax and changes in fair value of AFS financial assets). The correlation of variables will have a significant effect in determining the ultimate impact on price risk, but to demonstrate the impact due to changes in variables, variables had to be changed on an individual basis. It should be noted that movements in these variables are non-linear.

		31 December 2011		31 December 2010	
	Change in variables	Impact on profit before tax	Impact on equity*	Impact on profit before tax	Impact on equity*
Market indices					
Bursa Malaysia	+ 10%	7,768	5,826	8,298	6,224
Bursa Malaysia	-10%	(7,768)	(5,826)	(8,298)	(6,224)

The potential impact arising from other market indices are deemed insignificant as the Company's holdings in equity securities listed in other bourses are not material.

*Impact on equity reflects adjustments for tax, when applicable

30 FINANCIAL RISK (CONTINUED)

Operational risk

Operational risk is the risk of loss arising from system failure, human error, fraud or external events. When controls fail to perform, operational risks can cause damage to reputation, have legal or regulatory implications or can lead to financial loss.

The Company cannot expect to eliminate all operational risks but by initiating a rigorous control framework and by monitoring and responding to potential risks, the Company is able to manage the risks. Controls include effective segregation of duties, access controls, authorisation and reconciliation procedures, staff training and evaluation procedures, including the use of Internal Audit.

Business risks, such as, changes in environment, technology and the industry are monitored through the Company's strategic planning and budgeting process.

31 REGULATORY CAPITAL REQUIREMENTS

Regulatory capital is the minimum amount of assets that must be held throughout the year to meet statutory solvency requirements governed under the Framework. As part of the statutory requirements, the Company is required to provide a capital position on a quarterly basis to Bank Negara Malaysia.

The capital structure of the Company as at 31 December 2011, as prescribed under the Framework, is provided below:

	Note	2011 RM'000	2010 RM'000
Eligible Tier 1 Capital			
Share capital (paid-up)	10	278,000	278,000
Retained earnings		333,912	230,654
		611,912	508,654
Tier 2 Capital			
Available-for-sale reserves		8,409	6,245
Revaluation reserves		1,557	1,837
		9,966	8,082
Amounts deducted from capital		(26,930)	(26,930)
Total Capital Available		594,948	489,806

The Company has met the minimum capital requirements specified in the Framework for the years ended 2011 and 2010.